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ABSTRACT

This volume consists of four articles dealing with strategies for combatting unemployment in the 1980s. In the first article, entitled "The Problem of Unemployment in the United States," Martin Neil Baily examines the nature of unemployment, the inflation trade-off and the natural rate of unemployment, indicators of structural change, and sources of increase in the natural rate. Alan Cranston, in his article entitled "The Path to Full Employment," deals with such issues as increased productivity; business labor, and government productivity teams; fiscal and monetary policy and the deficit; the fight against structural unemployment; and equal employment opportunity. The next article, "A Quarter Century of Employment and Training Policy: Where Do We Go from Here," by Sar A. Levitan and Garth L. Mangum, deals with such topics as Federal involvement in employment training programs, the past performance and problems of such programs, and an employment and training program for the rest of the decade. In the final article, "Reducing Youth Unemployment: The Case for a Fresh Approach," Stanley S. Litow and Susan Amlung address the costs of youth unemployment, government response to the problem, current youth services available in New York City, Federal and city roles in such programs, and programs that work. (MN)

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Strategies in a New Framework

Martin Neil Baily
Alan Cranston
Sar A. Levitan and Garth L. Mangum
Stanley S. Litow and Susan Amlung

Introduction
William D. Nordhaus

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Summary

Unemployment has become over the past two decades an increasingly significant problem in the United States. Overall unemployment rates have been high. Teenagers, minorities, and particular regions of the country have been hurt disproportionately.

The papers in this monograph examine various phenomena of unemployment and responses of government, assessing experience of recent years and implications for the future. *Martin Baily* analyzes the components of unemployment and their relationship to changes in the population and the economy. *Alan Cranston* addresses the range of federal policies and programs which relate to national job objectives. Authors *Sar Levitan and Garth Mangum* and *Stanley Litow and Susan Amlung* describe and critique from national and local perspectives, respectively, the complex set of employment and training programs which have been developed to help reduce unemployment.

Martin Neil Baily

Martin Baily looks carefully at the pattern of increasing unemployment which has been experienced by the United States since the 1950s. He concludes that changes in the demographic structure of the labor force have raised the basic unemployment rate, and that this in turn has somewhat worsened the tradeoff between inflation and unemployment.

Baily first discusses the differences among frictional, cyclical and structural causes of unemployment, pointing out that "both short-term and long-term unemployment are important in the U.S. labor markets. Many short-term spells of unemployment are associated with quits, temporary layoffs and persons moving into and out of the labor-force. At the same time, the small fraction of unemployment spells that are long-term accounts for a disproportionate fraction of the total weeks of unemployment. And the fact that many workers are unemployed more than once over the course of a year adds to the importance of long-term unemployment."

Examining the evidence available from recent studies, Baily concludes that the "natural" rate of unemployment, or the rate below which inflation tends to increase, has in fact crept upward since the 1950s. "Once supply shocks are accounted for and once the experience of 1981-83 is included, it is clear that there has been (an increase) in the natural rate of unemployment in the United States. . . ."

The most important factor in this increase, Baily's analysis suggests, has been demographic, although differential employment growth among various areas of the country seems to have had an impact as well. Economists have noted the importance of increased female, youth and minority participation in the labor force for some time, and this analysis confirms that worsening unemployment rates among sub-groups of workers have in fact been associated with an upward trend in the overall unemployment rate not accounted for by cyclical downturns. The fact that different areas of the country have not shared equally in economic growth also is linked in this analysis to increased basic unemployment. Baily finds no evidence to suggest that, beyond impacts on worker sub-groups and regions, the changing economic structure has affected overall unemployment rates.

Baily examines the arguments that government income-transfer programs and the growth of two-earner families have increased unemployment by reducing incentives to work. He finds no evidence that this has occurred. Many individuals who receive benefits (such as the elderly and disabled) would not be in the labor-force anyway; net coverage of unemployment insurance has not increased over the period; and increased participation by women in the labor force indicates greater work incentive, not less.

Baily says that comparing the 1970s to the 1960s, there was an increase in average unemployment of 1.5 percentage points. "This," he asserts "was split 40 percent to an increase in the amount of cyclical unemployment and 60 percent to an increase in the natural rate. Comparing 1980-82 to the 1970s, there was an increase in average unemployment of 1.9 percentage points, *all of which was cyclical.*"

Alan Cranston

Senator Alan Cranston believes that a full employment strategy must be based on several principles, namely: "People who work should be able to earn a good living; people who work hard should be rewarded for their effort and their talent. Anyone who wants to work and is able to work should be able to find a productive job. Government should make certain that all of its policies and programs encourage people to work. Every American should have an equal opportunity for employment, regardless of race, religion, gender, age, or disability."

Cranston stresses the importance of *job creation* as the fundamental goal of our economy. "The average American," he says, "expects profitable businesses to produce not only goods and services but jobs." He believes that "measured by the yardstick of full employment, the economic policies of all recent administrations—Democratic and Republican alike—have generally produced disappointing results. But President Reagan's economic policies have been particularly disastrous. Despite the recovery, unemployment is still higher than it was when Ronald Reagan became President."

In order to recapture world economic leadership, Cranston believes, America must bring about a "fundamental change in relations among government, business and labor. . . . These three traditional adversaries must forge a more cooperative national industrial policy in pursuit of their common, long-term interests. They must join in putting Americans back to work, in rebuilding our basic manufacturing industries, in encouraging our newer industries, and in reviving America as a successful world competitor."

Calling for measures to promote long-term productivity growth, Cranston focuses on current and projected federal deficits, saying that we need a combination of revenue increases, constraint in military spending and restraint in non-defense spending, with emphasis on controlling costs in specific sectors such as health care. Finally, Cranston urges better coordination of monetary and fiscal policies; measures to ensure Presidential participation in Federal Reserve policy-making; and action to bring exchange rates within more reasonable ranges.

Cranston's program for full employment would include measures to strengthen exports through credit; more aggressive negotiation and targeted plans for specific industries; a revised counter-cyclical public jobs program; better training and education; a voluntary national service program; and a strong commitment to equal opportunity.

Sar Levitan and Garth Mangum

"Between 1961 and 1980, during three Democratic and two Republican administrations, the federal government became increasingly involved in expanding human resource programs and in opening opportunities to the disadvantaged sectors of the population. Charging that many of these efforts have been counterproductive or should at least be left to lower levels of government or to the private sector, the Reagan Administration sharply curtailed federal employment and training programs."

Authors Sar Levitan and Garth Mangum thus describe the current context, as an introduction to a review of the post-World War II history of increasing federal involvement in targeted efforts to reduce unemployment. The Employment Act of 1946, they note, established employment as a federal policy objective, but with emphasis on macroeconomic approaches designed to promote stable overall economic growth: "In the 1960s," they point out, "the federal government began for the first time to assume formally the additional task of helping individuals who faced long-term difficulties competing in the labor market during good years as well as in periods of economic downturn. The goal of the programs which came to be enacted was the achievement of equal employment opportunity and the provision of basic income to all Americans."

Tracing the growth of this system over a period of somewhat more than two decades, the authors point out that each new development resulted from a new perception or definition of the problem of unemployment—from the early emphasis on depressed regions of the country, through specific training programs for experienced workers suffering from long-term industry shutdowns, to programs aimed specifically at economically disadvantaged youth and welfare recipients. Changes in emphasis occurred, with shifts back and forth between focus on improving employability, on the one hand, and providing work experience and actual employment on the other. The appropriate sharing of responsibility between government and private industry also was resolved in different ways at different times. The programs themselves became both large and complex.

During the Nixon Administration decentralization, elimination of rigid program categories and cost constraint were introduced as important objectives. Together with reform of welfare programs, these objectives continued to be important until the end of the Carter Administration.

Authors Levitan and Mangum review the data on the effectiveness of various programs. They conclude that many were useful and a reasonable expenditure of public dollars. While they recommend larger and more highly-funded employment emphasis than that pursued by the Reagan Administration, they would maintain some features of decentralization and consolidation which appear to make sense.

Stanley Litow and Susan Amlung

Dramatic increases in unemployment rates for young people, and particularly for minority young people, will not be reversed with a cyclical recovery, authors Stanley Litow and Susan Amlung argue. They note that structural changes in the nation's economy, and the failure of society to provide effective basic education and training, have combined to create a large and growing population of unemployed youth.

"Youth unemployment in New York City has more than tripled over the past decade, and the rest of the nation is beginning to close in on the city's considerable lead in this devastating statistical race," the authors point out. "The human costs of this failure are immeasurable—deprivation and despair, family disintegration, addiction and crime. These alone would be reason enough to warrant a concerted effort to find more effective solutions. In addition, there are the hard financial and economic costs of unemployment—costs borne by all taxpayers and by the society as a whole."

Focusing on the problem as it is confronted in the nation's largest city, with effective youth jobless rates of about 40 percent, Litow and Amlung detail the economic and budget costs of widespread unemployment in the 16- to 20-year-old age group. They survey the complex and fragmented network of federal and state employment and training programs as they operate at the local level. They point out that lack of coordination, low budget priority, and inadequate understanding of service requirements now characterize the city's youth employment activities.

Calling for a more intense and more comprehensive effort based on evidence about what works and what doesn't, they say that "the key is a range of services in combination with a real job." In order to make this objective concrete for a significant number of jobless youth, they argue, "the federal government would have to alter its methods of funding youth employment programs, city governments streamline and coordinate their contract-for-service processes, business become more involved, and community service providers adopt more comprehensive program designs." They recommend a combination of job experience, with stipends; provision of employment-related support services including remedial education and work-readiness training; and placement and follow-up services.

Litow and Amlung also believe that a program which links youth job training to productive, publicly-sponsored projects of real economic value to the community would serve the dual purpose of providing both entry-level job experience and needed public benefits.

8

Introduction

During most of their history, capitalist economies have been plagued by recurrent bouts of unemployment. Indeed, the severest critics of Western economies—from Marx to today's radicals—point to the inability of market economies to provide good jobs to all as their most profound flaw.

After the advent of macroeconomic management—introduced as theory in the 1930s and first systematically applied in America during the Kennedy Administration—this aspect of criticism by Marxists and others was muted. By appropriate manipulation of monetary and fiscal policy, we were told, a nation could attain the brave new world of full employment, stable prices, and equity.

In the last decade, the dream of full employment has been dashed. The reasons are varied, and we are not even sure that we know them all, but it is clear that in the 1970s the American economy entered a period of great turmoil. Commodity prices leapt up, exchange rates were freed from pegged rates, and inflation heated up. Since 1978, moreover, people have become increasingly skeptical of the ability of economic policy to deliver the macroeconomic goods. Monetarists and the new "rational expectations" school, along with more traditional political conservatives, hold that a government cannot durably affect its unemployment rate—or at least cannot do so without ever-climbing inflation.

The result of this confluence of external forces and mood of conservatism has been seen over the last few years. Unemployment has cycled around a rising trend since the late 1960s. Each cyclical unemployment peak is higher than the last—each recovery weaker. Moreover, since 1981 there has been a virtual abandonment of the goal of full employment, or even high employment, as the Reagan Administration has doggedly pursued its programs to increase military spending while cutting taxes and civilian programs. There has been virtually no attention to joblessness since January 21, 1981.

The papers in this volume are an attempt to redress the neglect of jobs and unemployment. They do not accept as inevitable the upward trend in nor the growing political acceptance of high unemployment.

In attempting to reverse these trends, two steps are necessary. First, we must analyze past trends so that we can understand why rates have risen. Then, armed with this analysis, we can examine macroeconomic or labor-market policies that promise to reduce joblessness.

The first question, concerning the causes of the upward trend in unemployment, is thoroughly analyzed in the study by Martin Baily. He begins with a review of recent studies of labor market behavior. One of the most important findings in recent years is that unemployment looks very different in the United States than it does in other industrialized countries. Employment in the U.S. shows a great deal of turnover, as workers move from job to job, or into and out of the labor force. Moreover, in the U.S. unemployment usually is very brief, lasting only two months on average.

The behavior of unemployment in European countries is quite different—with most of the unemployed having been jobless for more than six months. For example, in 1982, two-thirds of French unemployed and three-quarters of Belgian unemployed were jobless for more than 6 months, compared to only one-sixth for the United States. These striking differentials point to profound differences among the labor markets of Western countries.

Baily also reviews modern theories of the partition of unemployment between cyclical and other causes. Today, labor market specialists define the "natural unemployment rate," in Baily's words, as "the minimum level of unemployment that can be reached by policies to stimulate demand without generating rising inflation."

Put differently, the natural unemployment rate is the threshold unemployment rate, below which the economy cannot go, *with today's labor market institutions,* without threatening to reignite inflationary forces.

Baily's review of the evidence points to a natural rate of unemployment in the range of 6 to $6^1/_2$ percent in the early 1980s. An employment rate substantially higher than the natural rate since 1980 has been in good part responsible for the decline of inflation over this four years.

Another important question addressed by Baily concerns whether "structural" unemployment has risen over the last 15 years. In part, concerns about structural unemployment are clearly a reaction to the deep recession; every recent period of stagnation has produced similar discussion about the permanent loss of jobs from manufacturing or fears of industrial takeover from cybernetics or robots.

Baily asks whether, this time, the wolf might not be here.

The impressive array of data compiled by Baily suggests that in fact at least some rise in the natural rate has been produced by greater structural unemployment. Among the findings are:

- There has been a major shift in the composition of the labor force toward groups that show high unemployment (particularly toward teenagers).
- There appears to be greater dispersion in labor market experience among different demographic groups and among different regions.
- The number of vacancies (as measured by help-wanted advertisements) has risen at each level of unemployment.
- In addition, the economy appears to have been more subject to external and policy shocks over the last 15 years than in the prior two decades.

Taken together, these data point to a substantial rise in the natural rate of unemployment over the last two or three decades. They further suggest that at least part of the poor unemployment experience—perhaps two percentage points of the rise from the 1950s to today—was due to a rise in the natural rate.

A corollary of these results, however, is that a good part of the rising unemployment can *not* be attributed to the structure of the economy. Thus from the 1950s to the 1980s, the average unemployment rate rose almost 4 percentage points, whereas according to Baily the natural rate rose perhaps 2 percentage points. *The two percent additional rise in unemployment may be attributed to the retreat from the goals of full employment and from an active commitment to use macroeconomic policies to reach high employment.*

The balance of the papers in this volume address the policy issues of how to attain more satisfactory levels of employment. The most comprehensive approach is that of Senator Alan Cranston. While its range goes far beyond the labor-market questions addressed in the other papers, it emphasizes that the question of labor-market policy touches vitally other economic policies.

Most important to remember, as we look back over the blood-letting of the last four years, is that high employment is fundamentally constrained by inflation experience. The American economy has produced $800 billion less than its potential, with an accompanying high rate of unemployment, to reduce an intolerable inflation rate. Indeed, the tragic global recession—accompanied by stagnation in Europe, high real interest rates, soaring debt-service burdens, and no relief in sight outside of North America—reasonably can be labeled the result of policies taken to reduce the soaring inflations of 1979-80. Cranston puts forth a number of policies that would restrain inflation without inducing recessions.

The other papers review policies designed to improve the functioning of labor markets themselves. Sar Levitan and Garth Mangum turn to the issue of employment and training policies. They point out that such policies have in the past had two separate functions—improving employment opportunities and providing income support.

In reviewing the vast array of programs, they point out that the central question for policy is whether such programs have indeed provided *more* than temporary income support for their recipients. In other words, have they led to improvement in job skills, post-training employment records, and so forth?

The many studies on this subject, some summarized in the Levitan-Mangum paper, find a wide variety of results. Among them are:

- The carefully-designed Supported Work Program tested for the effects of subsidized work among a number of low-income groups. It was found that the programs had a significant payoff for AFDC recipients but not for some other groups.
- Many training programs, particularly when accompanied by supporting services, showed high returns in terms of better pay and higher employment rates than was experienced by control groups.

The authors conclude that by the test of economic efficiency, "most, but not all, of the employment and training programs appear to have been wise public investments."

The fourth paper, by Stanley Litow and Susan Amlung, reviews the experience with training programs, focusing on youth programs in New York. The fact that 20 percent of all teenagers, and almost 50 percent of minority teenagers, who want to work are unemployed is well known; it has dogged economic planners for many years.

Litow and Amlung stress that the issue is more than just jobs or training. Reducing unnecessary teenage unemployment will require a host of complementary services—but the necessary ingredient is, in the words of those closest to the problem, a real job:

> A paid job, or at least stipended training, is needed to get the kids into a program. Then we can give them the skills, the schooling and sometimes—if funding permits—the support services. But the most valuable learning is what they get on-the-job. Without that real-life aspect, we lose the kids.

* * * * *

As the nation continues into its second year of recovery from the tragic 1980-82 downturn, many fear that we will soon experience a slowdown in the impressive gains in jobs of the last 16 months. Indeed, without active price-wage policies, and with today's high dispersion in unemployment rates, current policies appear to be leading us to a cyclical peak with unemployment above the natural rate of unemployment.

Such an outcome is not inevitable. A careful study of the papers in this volume will point to ways in which the nation can act to reverse the growing trend of unemployment without returning to the inflationary binges of the last two decades.

William D. Nordhaus
Co-Chair, Economic Policy Study Group
Center for National Policy
May 1984

The Problem of Unemployment in the United States

Martin Neil Baily

As this is written, most forecasters are predicting that unemployment in the United States will remain in excess of 7 percent over the next two or three years, even assuming that there is sustained economic recovery. If these forecasts are accurate, the unemployment rate for 1980-85 will average more than 8 percent. This compares with an average of 6.2 percent for the decade of the 1970s and 4.8 percent for the 1960s.[1] The problem of unemployment in the United States has been getting worse and worse. This study looks at this problem in two steps. First, it explores the nature of unemployment in the United States and, in particular, the way in which high job turnover contributes to high unemployment even in comparatively good economic times. Second, the study turns to the key question of why the decade-by-decade average unemployment rate has been rising.

The Nature of Unemployment

The number of unemployed in any month is estimated by sampling, in the Current Population Survey conducted by the Bureau of the Census. Persons who are not currently employed, but are either looking for work or are on temporary layoff, are classified as unemployed.[2] The definition of unemployment, therefore, relies heavily on whether or not people report they are actively searching for a job. Does this official unemployment rate really measure the amount of idle labor? There are people answering the survey questions who have looked for work for some time in the past, but have given up their search. These "discouraged workers" are not counted as unemployed, but probably should be so counted. Other people report that they are looking for work even though their search is rather casual and their desire for employment is not very great. Probably they should not be counted as unemployed.

Because of these offsetting biases, however, there is no obvious presumption that reported unemployment overstates or understates some theoretical conception of what unemployment really is.

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Cyclical, Frictional and Structural Unemployment

The main economic causes of unemployment have been grouped under three headings—cyclical, frictional and structural. The nature of these three causes is as follows.

Cyclical. During recessions, or downturns in the "business cycle," the overall level of demand in the economy is weak and businesses are unable to sell all their output, so they cut back production and employment. Some workers are laid off and become unemployed. Workers who are entering the labor-force find few jobs available and remain unemployed. Cyclical declines in the level of demand for goods and services have been a major cause of unemployment in the United States.

Frictional. The short-term changes that are inevitable in a diversified economy, even when the level of overall demand is adequate, also create unemployment. There can be large fluctuations in output and employment in any given plant as a result of seasonal effects or other short-term factors. At any moment some businesses may be hiring workers and operating at peak capacity, and others may be in a period of slack. The year 1979 is not considered to be a recession year, and yet an average of 1.1 out of every 100 workers was laid off in each *month* of that year. Most such workers spend time unemployed before either returning to their old jobs (about two-thirds of those laid off do this)[3] or finding new jobs.

Voluntary actions by workers can also generate unemployment. In 1979 an average of 2 out of every 100 workers quit each month. Many of these individuals moved straight to new jobs, but some spent time unemployed. Young people in school or leaving school, women of child-bearing age, and older persons approaching retirement enter the labor-force, leave it and then reenter with some frequency. It is normal and desirable that persons entering or reentering the labor-force spend time looking for work. Labor market turnover has always taken place at a very high rate in the United States. Compared to Europe and Japan, our businesses are quicker to make layoffs when demand falls and American workers are more prone to quit and to move in and out of the labor-force.

Structural. Unemployment that is a result of a mismatch between jobs and workers is called structural unemployment. Hard-to-employ workers frequently lack even basic literacy and numeracy skills and some may lack the motivation to find work. Even those with adequate education may not have the specific technical skills required for the available jobs. Structural unemployment can also be the result of the industrial or geographic distribution of jobs and workers. There may be a shortage of labor in one city or industry, but at the same time excess unemployment in another city where its major industry is in decline. Discrimination by race or sex is another source of structural unemployment. It can mean that employers are reluctant to hire certain qualified workers even though there are vacancies.

Cyclical, frictional and structural causes of unemployment are not completely separate; they interact to determine the overall unemployment rate at any given time. If the demand for goods and services is very strong, as it was in World War II or in the late 1960s, then jobs are easy to find and this reduces the impact of the frictional and structural reasons for unemployment. Even though the unemployed lack skills, firms become more willing to provide training when demand is strong. Workers who quit can very quickly locate new positions at such times.[4] When there is a serious recession, on the other hand, the burden of unemployment falls most heavily on the unskilled, the young and the disadvantaged. Certain cities are hurt more than others. Structural problems become more evident during downturns.

The Length of Time Spent Unemployed

Economists have analyzed in great depth the length of time people spend unemployed and the relative importance of long-term and short-term unemployment. This information is helpful to an understanding of the nature of unemployment. If most unemployment is over quickly (that is, if most spells of unemployment are short), then this suggests that unemployment is from frictional causes and is not a serious problem. Long-term unemployment is more likely to be cyclical or structural in origin.

The length of a spell of unemployment is measured by following a sample of unemployed people over several months. In the early 1970s, when the economy was neither in a boom nor in a recession, the average length of an unemployment spell was less than two months.[5] Sixty percent of those who became unemployed were no longer unemployed one month later. Even during a period of high unemployment, the average spell length remains quite short. When unemployment increases, roughly one-third of this is associated with an increase in the average spell length and two-thirds with an increase in how often people become unemployed.[6]

This pattern is also visible in different demographic groups. Teenagers have a much higher unemployment rate than adults, and yet their average spell of unemployment lasts a shorter time than the average for adults. Blacks have an unemployment rate that is about twice as high as that of whites. And yet their average spell is only a little longer than that of whites.

Until recently, findings such as these had a great influence on the way economists looked at unemployment. It seemed that unemployment was not much of a problem because it was usually over fairly quickly. It seemed also that recessions were periods when more people experienced spells of unemployment, but were not periods where jobs became all that difficult to acquire, since the average spell remained short.

In the last few years, however, it has been realized that the findings on average spell length, taken by themselves, present a misleading picture of unemployment. *First, a very large fraction of unemployment spells (45-50 percent) end not as a result of finding a job, but because the unemployed person stops looking for work and leaves the labor force*. Only about one-third of persons becoming unemployed find jobs within three months in a normal year. Labor-force withdrawal is particularly important for women and young people—young blacks particularly. The shortness of the average unemployment spell had suggested that jobs were not particularly hard to find. But if so many spells are ended by labor-force withdrawal, this conclusion has to be questioned.

The significance of the brevity of the average unemployment spell can be questioned for a second reason. Somewhat paradoxically, even though there are so many short spells, a large fraction of the total amount of unemployment that occurs in a year is generated by persons who are unemployed for much of the year. If ten people become unemployed, and nine of them have spells lasting one month but the tenth has a spell lasting eleven months, then the average length of a spell for this group is a moderate two months. But fully 55 percent of the total months of unemployment for all the 10 workers is accounted for by the one long spell.

There is not in fact such a dramatic split among the experience of the unemployed as this. But it is true that the computed average length of a spell of unemployment comes about because a large number of rather short spells are averaged in with a smaller number of longer spells. In 1974 one-half of all of the weeks of unemployment occurred in spells of at least three months duration. And 19 percent of the weeks of unemployment occurred in spells lasting at least six months.[7]

The second reason why long-term unemployment is more important than is suggested by the average spell length is that even though many people who become unemployed experience only a short spell of unemployment, they nevertheless become unemployed again soon afterwards. Some workers are laid off, recalled after a few weeks, and then laid off again. And persons who withdraw from the labor-force often start to look for a job again after a while. *Once these multiple spells of unemployment are taken into account, it is found that over 40 percent of all of the unemployment experienced in a non-recession year like 1974 is incurred by persons with more than six months unemployment.* This figure rises to 55 percent in a recession year like 1975.

Long-Term Unemployment In Europe

The kind of detailed information about the length of time spent unemployed that we have just been looking at for the United States is not available for the European countries. But there is another measure of the importance of long-term unemployment that is available. When the Current Population Survey is taken each month, those persons who report that they are unemployed are then asked how long they have been unemployed up to that point. For example, in 1974 10 percent of the unemployed reported that they had been unemployed for over 6 months. This figure is not directly comparable to those just presented. The respondents are talking about spells that are still going on, not periods of unemployment that have been completed. It has just been shown that long-term unemployment in the United States is more important than the 10 percent figure for 1974 would suggest. But nevertheless, the reported durations of ongoing unemployment spells do provide a valuable snapshot of the people currently out of work and, more importantly, comparable data for the major European countries are available.

Table A:
Percent of Those Currently Unemployed Who Have Been Unemployed Over 6 Months
(Average of Monthly Data for 1982)

Country	Percent Unemployed	Unemployment Rate (percent)
U.S.	16.6	9.7
France	66.5	8.0
Germany	46.4	6.8
Britain	54.5	11.2
Belgium	75.3	13.1
Netherlands	59.4	10.0

Source: Organization for Economic Cooperation and Development, *OECD Outlook*, July 1983, No. 33.

In 1982 the unemployment rate in the United States had risen to 9.7 percent and the percent of those currently unemployed who reported that they had been unemployed for over 6 months had risen to 16.6. The table on this page gives the figures for other countries. The difference between the U.S. and Europe that is revealed here is staggering. Long-term unemployment is a much, much more serious problem in Europe. Between one-half and three-quarters of those currently unemployed in the major European countries have spent over 6 months without work.[8]

During the 1960s the European economies achieved much lower unemployment rates year after year than did the United States. There were several reasons given for the relatively favorable European experience. For example Germany and Britain had extensive apprenticeship programs that helped hold down teenage unemployment. The most important reason for the difference, however, was that the amount of job turnover was much lower in Europe than in the United States.

Since 1973 the unemployment rate in Europe has been rising both absolutely and relative to the United States. It appears that this convergence of unemployment rates has come about not because of more turnover in Europe, but because of structural problems and chronic cyclical weakness that have created a huge volume of long-term unemployment. The growth rate of the labor force in Europe has been very slow since 1973 (negative in Germany), partly because of the repatriation of guest workers. Without that, the volume of long-term unemployment would have been even higher.

Long-Term and Short-Term Unemployment: A Summing Up

Both short-term and long-term unemployment are important in the U.S. labor market. Many short-term spells of unemployment are associated with quits, temporary layoffs and persons moving into and out of the labor-force. At the same time, the small fraction of unemployment spells that are long-term account for a disproportionate fraction of the total weeks of unemployment. And the fact that many workers are unemployed more than once over the course of a year adds to the importance of long-term unemployment.

The problem of long-term unemployment is much worse in Europe. Their unemployment rates are now as high or higher than ours. They still have lower turnover, but they now have a large group of workers who are chronically unemployed.

The Inflation Tradeoff and the Natural Rate of Unemployment

We turn now to the central issue of this study—explaining why unemployment has been rising. In order to determine how much, if any, of this increase has been because of rising *cyclical* unemployment, we need to consider the unemployment-inflation tradeoff.

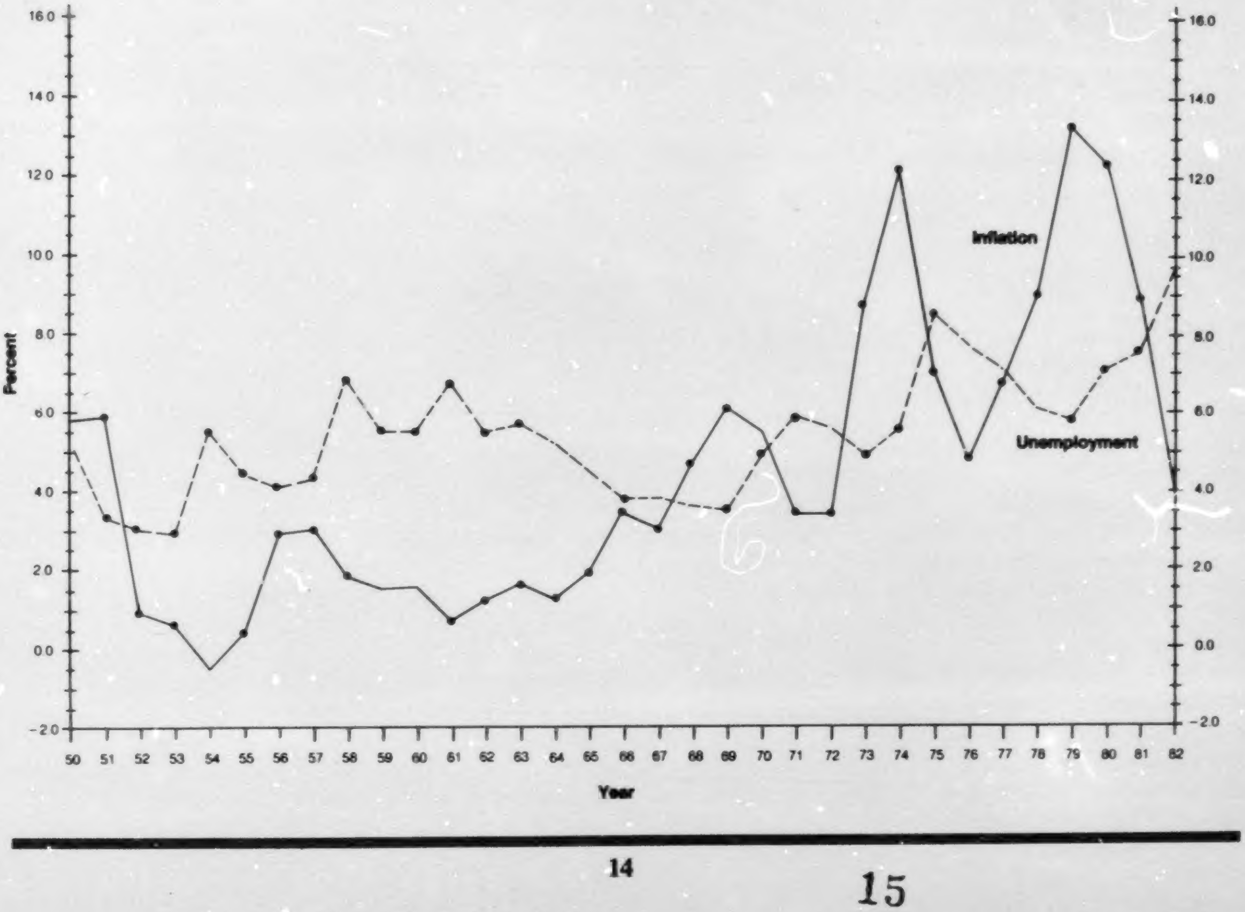
There is a continuing debate among economists about whether or not there is such a tradeoff. This debate is a vital one for macroeconomic policymaking and has a major bearing on the subject of this study. In its simplest form, the tradeoff hypothesis says that any increase in the amount of cyclical unemployment implies a lower rate of inflation.

Figure 1 shows the inflation rate and the unemployment rate over the period 1950-82, and it does show that recessions and high unemployment are associated with lower inflation. On the other hand, the decade of the 1970s is clearly one of both high average inflation and high average unemployment. This suggests that the worsening of unemployment in the 1970s was not cyclical in origin.

The idea of a tradeoff between unemployment and inflation was accepted by most economists in the 1960s. It was based originally on an examination of historical evidence, but the behavior of the economy in the 1960s also fit the idea well. Inflation remained very low in the early 1960s, when unemployment was fairly high, but then increased as unemployment dropped below 4 percent in the late 1960s. The tradeoff view was challenged first on theoretical grounds by a small group of economists led by the monetarist Milton Friedman. And then the experience of the 1970s seemed to overturn the whole concept, because both inflation and unemployment increased.

At this point no one believes that there is a *single, stable* unemployment-inflation tradeoff. This means that changes in the amount of cyclical unemployment cannot be identified simply on the basis of whether or not inflation

Figure 1: Unemployment and Inflation Rates, 1950-1982



has increased or decreased. The debate at this point is between those who would abandon the idea of a tradeoff altogether, and those who would retain it but try and understand why the relationship it implies seems to move over time.

The Natural Rate Hypothesis

Milton Friedman would like to see the inflation-unemployment tradeoff abandoned, at least as a basis for policymaking. He argues that a free-market economy will always move towards a level of utilization of capital and labor that is economically efficient. At this efficient point there are frictional and structural sources of unemployment, and these determine what he called the *natural rate of unemployment*. The U.S. economy is stable, he says, and unemployment will only deviate from the natural rate if there is some disturbance pushing it away. After such a disturbance, the economy will return quickly to the natural rate once again. It is the impact of these disturbances on output and unemployment that are what we call the business cycle, and their main source, he believes, is erratic government policy.

In Friedman's view the Federal Reserve Board determines the rate of growth of the money supply and the average growth rate that is set over two or three years determines the rate of inflation. Over a time-period of this length there is no tradeoff at all between inflation and unemployment. High inflation over several years does not imply low average unemployment. In the short-run, fluctuations in money growth induce variations in both the unemployment rate and the inflation rate that may generate an apparent tradeoff between the two, but this is not a stable relationship that can or should be exploited for policy purposes. Policy fluctuations cause economic instability, Friedman believes.

The Short-Run Tradeoff and the Natural Rate

Other economists disagree with Friedman and believe that at any given moment there is a short-run tradeoff between inflation and unemployment that is very relevant for policy choices. The rate of inflation that exists at any time results from many economic forces. It may be high or low or it may increase or decrease from one year to the next for a variety of reasons. An oil or other basic price shock can raise inflation even with no excess demand in the economy. The level of aggregate demand and the resulting unemployment rate do have an important influence on inflation; it is just that they are not the only influences.

The importance of the tradeoff is that in the short run a policy of demand restraint will result in somewhat lower inflation and higher unemployment than the levels that would have resulted in the absence of the demand restraint. Inflation increased between 1979 and 1980. The tradeoff implies that this increase would have been even greater had not demand restraint induced a recession and pushed unemployment up to 7.1 percent in 1980, compared to 5.8 percent in 1979.

The dimensions of the tradeoff are as important as its existence. The rule-of-thumb is that each percentage point of increase in the unemployment rate that is sustained for one year will reduce the inflation rate by only about one-half a percentage point (compared with what it would otherwise have been). When the aim is to fight inflation this rule-of-thumb looks terrible.[9]

Despite the important differences between Friedman's analysis and the tradeoff view, there is a sense in which Friedman's idea of a natural rate of unemployment has won broad acceptance. There is a price-wage spiral that works its way through the economy. If prices increase, this means that workers' cost of living has increased. Workers then try to increase their wages even if there is no greater demand lowering the level of unemployment. But since wages are a key determinant of many producers' costs, this induced wage increase brings about another increase in prices. The working through of this price-wage spiral can mean that attempts to reduce unemployment below some critical value will result in continuously increasing inflation, because if demand is too strong wages and prices will keep chasing each other higher and higher. This critical value of unemployment is usually called the natural rate of unemployment, following Friedman's terminology.

In this study the term natural rate of unemployment will be used to denote the *minimum level of unemployment that can be reached by policies to stimulate demand without generating rising inflation*. This definition is the most useful and policy-relevant one. If unemployment is below the natural rate, then inflation will increase.[10] If demand restraint is to be used to curb inflation, then unemployment will be above the natural rate. It will have to be well above to generate much reduction in inflation, as the rule-of-thumb implies.

The level of the natural rate of unemployment is determined by the structure of the labor market, so that in this study *increases or decreases in the natural rate will be considered to be changes in the amount of structural and frictional unemployment. Fluctuations in the unemployment rate above or below the natural rate will be considered to be cyclical changes.*[11] Since frictional unemployment resulting from normal job turnover is included as part of the natural rate, it is important to remember that when unemployment is equal to the natural rate not all of this unemployment represents waste or hardship. A certain amount of job search associated with choosing careers or entering the labor market is efficient and desirable. On the other hand, the word natural goes much too far in this direction. It implies that if the economy were to operate at its natural rate there would be no hardship or problem unemployment. And that is not true either. Most estimates of the natural rate put it fairly close to 6 percent today. And that is too high to be an ultimate policy goal. Labor market policies can and should be used to lower the natural rate. The term natural rate has become the standard one, hence its use here, but the use of Friedman's term does not indicate acceptance of the idea that when the economy is operating at the natural rate it is at an ideal or efficient position. If it were not for the problem of inflation, there would be a good case for operating the economy with less unemployment than the natural rate.

The Tradeoff View and Changes in the Natural Rate

In the preceding section, it was argued that high inflation in the 1970s was caused primarily by inflationary shocks to the economy, and that the level of cyclical unemployment was in fact lower in the 1960s than in the 1970s—and certainly much lower than in the past three or four years. The hard question now is to decide how much change there has been in cyclical unemployment and how much the natural rate itself has changed. The obvious way to approach this problem is to work from the definition of the natural rate as an inflation constraint, but to take account of the supply shocks or "other factors" also. This means, in practice, constructing a statistical model to predict what inflation would have been had unemployment been at its natural rate. Then the difference between what actually happened and the prediction gives a reading on whether unemployment was above or below its natural rate at any point.

Many economists have attempted this task—a rather difficult one. Unfortunately the results have not been conclusive, but all of the studies agree that changes in the demographic composition of the labor force have raised the natural rate. Differences among the studies come in assessing how much increase has taken place beyond that.

Direct Estimates of Natural Rate Trends

Robert Gordon's approach[14] was to look directly at the rate of price inflation and to take careful account of all the different variables that influence inflation, including all of the supply shocks mentioned earlier. After he did that, he found no clear evidence that the natural rate had risen, apart from the demographic changes. In Gordon's analysis, however, the starting point was the assumption of stability in the natural rate. He asked if the data clearly refuted this assumption and found that they did not. He treated the natural rate as innocent until proven guilty.

James Medoff[15] started with the view that the natural rate had risen and looked at the data to see if it was consistent with that view. Medoff looked at the rate of wage change rather than at prices. This allowed a simpler approach than Gordon's. Supply shocks, he assumed, have no direct impact on wages, but cause wage acceleration only through the working out of the price-wage spiral. Medoff concluded that there was an increase after 1973 in the amount of unemployment necessary to restrain inflation.

The basic reason for the different findings in the two studies is that they made very different estimates of the impact of supply shocks on inflation. Medoff's results indicate that even though the supply shocks may have had a major immediate effect on inflation, their longer-run effect through the price-wage spiral was attenuated, because price increases feed back only partially into wage increases. In other words, when Gordon and Medoff divide the blame for high inflation in the 1970s between the effect of supply shocks and increases in the natural rate, they do it in rather different proportions. It is not obvious who is correct; the data allow different interpretations.

George Perry[16] did not focus particularly on the question of whether or not the natural rate has risen. He was interested in understanding the reduction of inflation that took place between 1981 and 1983. That is very relevant to this discussion, however, because the higher is the natural rate, the smaller is the decline of inflation that would be expected from a recession of any given size. Since the decline of inflation 1981-83 was rather greater than most people expected, this looks like evidence that the natural rate has not risen.

Like Medoff, Perry focuses on wage increases. He specifies a stable natural rate (after a demographic adjustment) and then asks whether actual wage behavior has deviated from the behavior predicted by his model. He finds that the reduction of wage inflation was slow to get started—in 1981 there was actually more inflation than the model predicts. But by the middle of 1983 this pattern had changed. Actual wage inflation had declined by more than could have been expected. On balance, therefore, Perry's study does not suggest that there has been an increase in the natural rate (except for demographic changes).[17]

Conclusions From the Direct Estimates

Direct estimates of the natural rate have narrowed the possibilities, even though they are not in agreement. Once supply shocks are accounted for and once the experience of 1981-83 is included, it is clear that there has been at most a small increase in the natural rate of unemployment in the United States, other than that resulting from demographic change. Given that the studies of unemployment and inflation still leave room for doubt as to the relative importance of cyclical and structural/frictional factors in explaining unemployment trends, however, it is important to examine other kinds of evidence.

Two Indicators of Structural Change

This section looks at two indirect ways of measuring whether or not the natural rate has increased. The first of these is based upon variation in unemployment rates among different groups of workers. The second looks at the relation between unemployment and vacancies.

The Dispersion of Unemployment Rates

Unemployment remained high over the period 1958-62 and this led to a discussion of cyclical versus structural unemployment, rather like the discussion that is going on today. In a paper written in 1964,[18] Robert Solow drew on evidence developed by Edward Kalachek and other researchers who had analyzed the dispersion of unemployment rates. He found that data for the 1950s and early 1960s gave no evidence that structural unemployment had increased. The dispersion of unemployment rates is important because there is not a single labor market, but a variety of different markets that are partially separated from each other. An employer on the West Coast will not immediately recruit workers on the East Coast. Blacks and whites are in separate markets to the extent that employers treat them differently—similarly men and women. Obviously these markets are not totally distinct. Silicon Valley companies do come to Washington to recruit skilled computer experts, especially when the government is laying them off. And teenagers can be placed in positions previously held by adults, especially if there is some training given or if the job requirements can be adjusted.

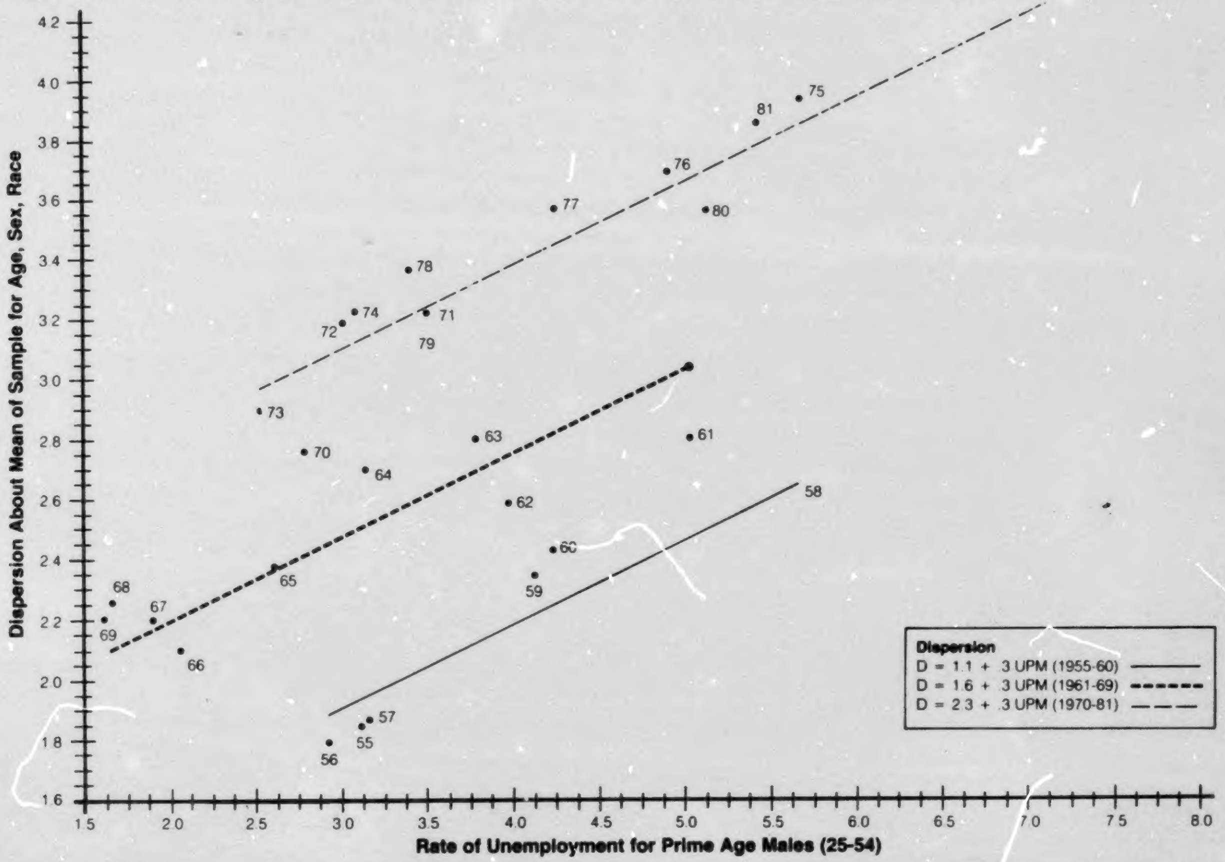
If the amount of rigidity in the labor market were diminishing, so that workers moved more quickly to the jobs, jobs moved more quickly to the workers, and training and retraining were taking place quickly and easily, then the unemployment rates of different cities or different types of workers would tend to equalize. This equalization would not be complete, but the decrease in structural rigidity in the labor market would be associated with a decrease in unemployment differentials. In practice, we suspect that structural unemployment is getting worse, not better. This means that instead of narrowing, unemployment differentials may be widening.

Separate unemployment rates are collected and published for a variety of sub-categories in the labor market. This analysis looks at unemployment rates broken down in three ways: (i) by demographic group; (ii) by city (the thirty largest urban areas) and (iii) by industry. The dispersion of unemployment for each year is computed as the average absolute deviation of, for example, the different city unemployment rates from the overall rate for all the cities together. By this measure, dispersion is high if, say, a given national unemployment rate is associated with a lot of unemployment in St. Louis and very little in Houston. Separate dispersion measures, therefore, capture what has been happening to unemployment differentials across different demographic groups, cities and industries.

In order to assess the trends in labor market rigidities we must first allow for the effect of short-run economic fluctuations. When the overall unemployment rate goes up it is associated with increased unemployment differentials. So to test for changes in structural rigidity in the labor market, the dispersions are all plotted against the adult male unemployment rate. If the values lie along a single line, then there is no change in structure. If the relationship has shifted upward over time, this shows a trend of rising labor market rigidity.

Figure 2 shows the dispersions when the unemployment rates of different demographic groups are used. This

Figure 2: The Dispersion of Unemployment Rates by Demographic Group



evidence provides empirical support for the demographic adjustments used in the inflation studies. During the 1960s and 1970s the composition of the labor-force changed and the labor market was not able to absorb fully the young people, minorities, and women in several age categories, all of whose relative shares of the labor-force increased. The dispersion of unemployment rates across groups more than doubled between the 1950s and the 1970s, for a given point in the business cycle.

Figure 3 shows the dispersion across major urban areas. This figure shows that there has been some increase in geographic dispersion of unemployment. Unemployment is somewhat more concentrated by city than it used to be. But the increase over time is not as large as in the demographic case.

Figure 4 shows how the dispersions lie when the computation is made using separate unemployment rates for each industry. The points are all scattered around a single line. There is no evidence of widening unemployment rate differentials across industries over time. The view that sharp changes in industrial structure have caused an increase in structural unemployment is not borne out by this evidence.[19]

The basic conclusion from this examination of dispersions is that, in contrast to Solow's findings for the early 1960s, there is now some clear evidence of increased structural unemployment. The evidence clearly supports the idea that the increased number of young people, women and minorities in the labor-force has raised both the demographic dispersion of unemployment and the amount of structural unemployment. *The unemployment problems created by declining industries in the 1970s and 1980s are no worse than would be expected, given the cyclical conditions in these decades.* The relationship between overall unemployment and industry unemployment that existed in the 1950s and 1960s remained unchanged in the later period. If declining industries are causing a particular problem recently it is showing up as high unemployment for young

Figure 3: The Dispersion of Unemployment Rates by the Thirty Largest Urban Areas

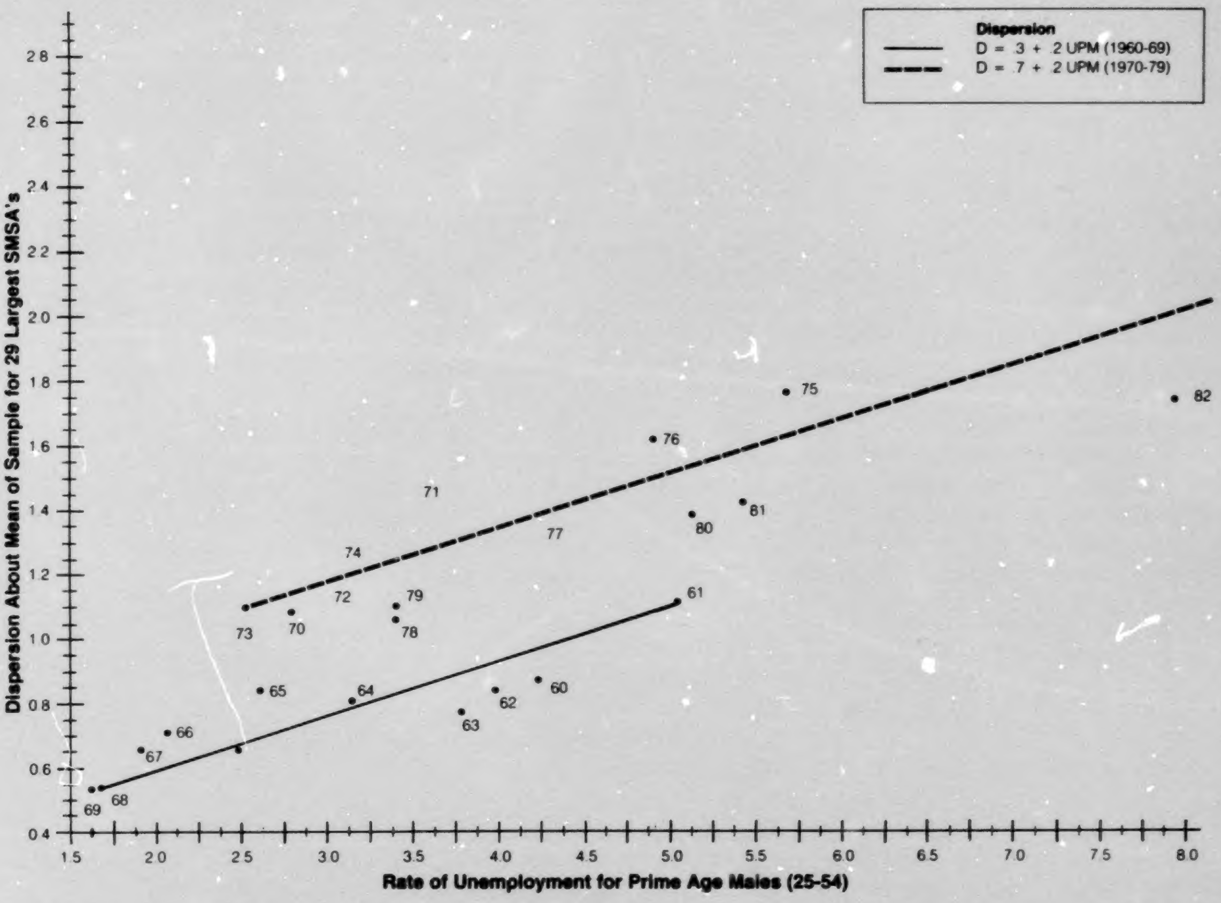
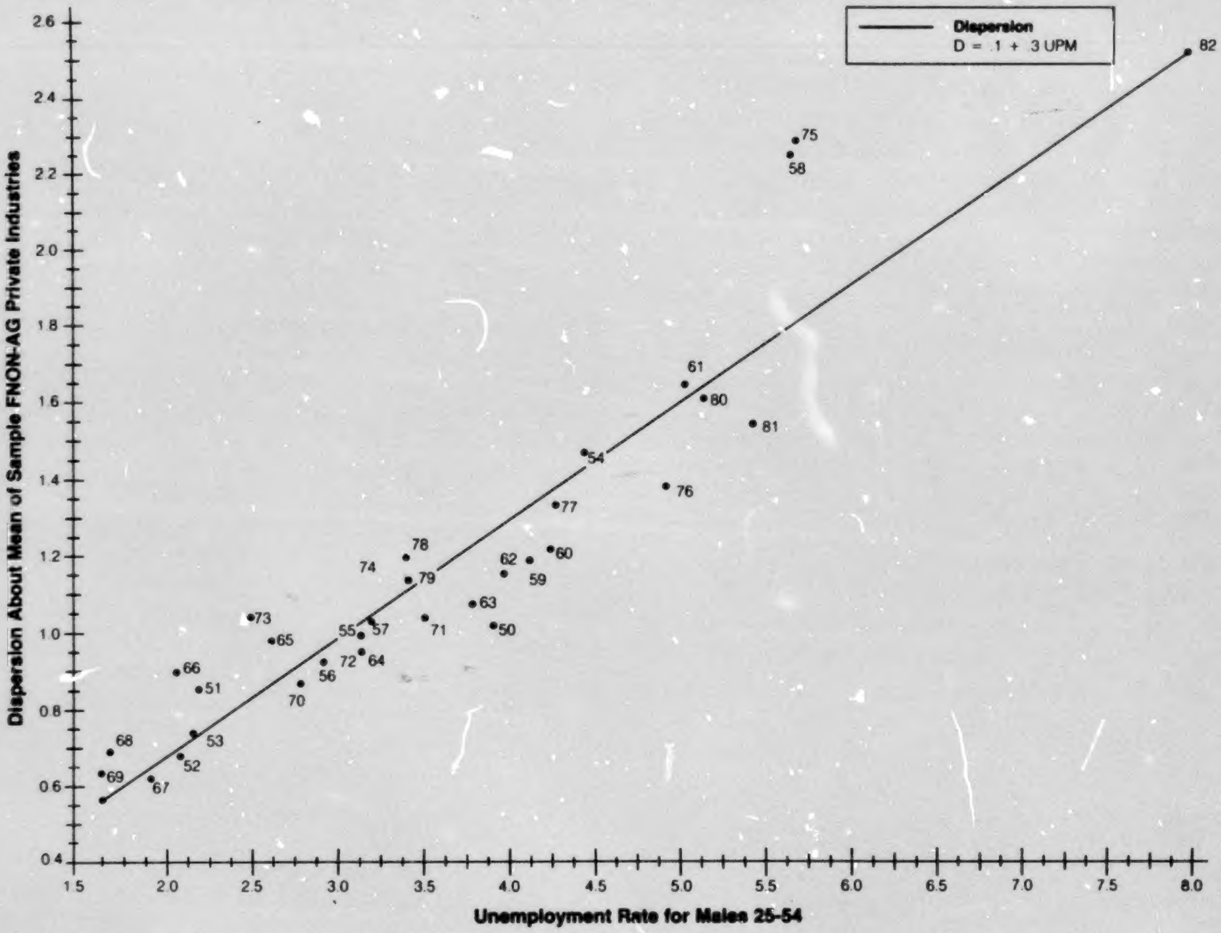


Figure 4: The Dispersion of Unemployment Rates by Industry

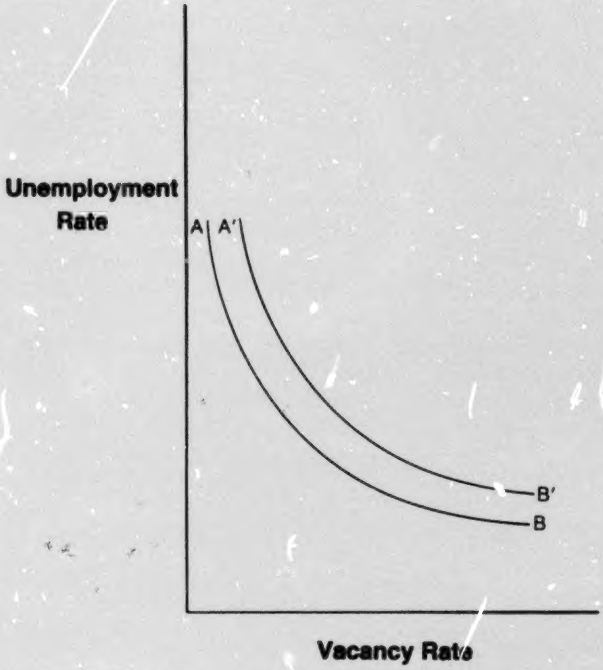


people and minorities and, to some extent, as a regional unemployment problem. The results indicate that workers displaced by a declining industry do not have a major problem in finding reemployment provided the area they live in is not a depressed one and provided they do not have the disadvantages associated with certain groups, including discrimination and lack of skills. Marc Bendick has studied the post-layoff work/unemployment experience of displaced workers and he confirms the importance of the status of the local labor market and the qualifications of the individual. He finds that the industry of previous employment plays a rather minor role in the experience of displaced workers.[20]

Unemployment and Vacancies

Total employment at any time does not equal the total of available jobs, because there are unfilled jobs or vacancies in the economy. The vacancy rate can be taken as a measure of the extent to which the demand for labor exceeds total employment. Unemployment and vacancies can coexist for a number of reasons, some of which have been mentioned. The unemployed may lack the skills required for a job or may be unwilling to accept an available wage offer. It may take time for the worker and employer to find each other even in a well-functioning labor-market. In general, there is an inverse relation between unemployment and vacancies that shows up over the course of the business cycle. When aggregate demand is strong in the economy, this opens up job vacancies and reduces the number of unemployed. On the basis of some theoretical considerations, a curved relationship between unemployment and vacancies has been postulated that is known as the Beveridge curve, after the British labor economist Sir William Beveridge, who wrote about this concept in the 1930s. Figure 5 illustrates this relationship. The curve AB is a Beveridge curve, and the economy would slide along this curve as aggregate demand varies. In a boom the economy is at point B, where unemployment is low and vacancies are high. In a slump, the economy is at point A, where the two are reversed.

Figure 5: The Relationship Between Unemployment and Vacancies



Evidence of structural change in the labor market can be found in shifts of the Beveridge curve. In particular, an outward movement of the curve to A′B′ such as that shown in figure 5 is evidence of increasing structural unemployment. On the curve A′B′ there is always more unemployment for a given level of vacancies than is true on the curve AB. When the Beveridge curve moves out this reflects an increased difficulty in matching the available unemployed workers with the available vacant jobs.

Except for a brief experiment in the 1960s the United States has not collected data on vacancy rates. The experiment was ended because it was thought that many employers were reluctant to report vacancies to government officials for fear that they would be sent large numbers of job applicants whom they would regard as unsuitable employees. The only way to draw a Beveridge curve for the United States is to use the help-wanted index (HWI), reported by the Conference Board as a proxy for the vacancy rate. Figure 6 shows the results of plotting the unemployment rate as adjusted by George Perry against the HWI. The reason for using the Perry adjusted rate is to remove the effect of demographic change from the diagram. We can then see whether the Beveridge curve has shifted outward for reasons over and above the demographic ones.

The evidence of the diagram is clear cut. This proxy for the Beveridge curve has moved out indicating increased structural unemployment over and above the demographic changes. This evidence conflicts with most of what we have found up to now. How reliable is it? There are reasons to be cautious in accepting this new evidence, because the HWI is a rather weak proxy for the true vacancy rate. First, it is constructed from a survey of the number of advertisements in the leading newspapers in the major cities. But most blue collar jobs are not advertised. Production workers usually find their jobs through personal contacts. Second, there have been factors that may have caused an upward trend in the HWI that do not necessarily indicate an increasing mismatch between the unemployed and vacancies. In particular, more jobs may be advertised today than in earlier years because of equal opportunity laws; and more advertising may be done in the newspapers in the survey because rival newspapers have closed.

This concludes the evaluation of the direct and indirect evidence that the natural rate has changed. We turn now to look more closely at reasons why such changes may have occurred.

Sources of Increase in the Natural Rate

Demographics

One important reason for increases in the natural rate of unemployment in the past twenty or thirty years has been the change in the composition of the labor-force and of the unemployed. In 1955 white males over age 24 accounted for 54 percent of the labor-force and 37 percent of the unemployed. In 1979, this group was only 40 percent of the labor force and only 20 percent of the unemployed. Cyclical unemployment was not a major factor in either of these comparison years. There are three obvious dimensions to this demographic change. Young people, women and blacks have been increasing their shares of both the labor-force and unemployment. The most important of these changes has been the increase in the number of young people.

In 1979 persons 16-24 made up 24 percent of the labor-force and 49 percent of the unemployed. These figures compare with 15 percent of the labor-force and 30 percent of the unemployed in 1955. Young people have always had a much higher unemployment rate than mature adults, so that simply increasing the fraction of young people in the labor-force has contributed to the increase in overall unemployment. Moreover, as the size of the cohort of young people grew, their unemployment rate rose relative to that of adults. The young people overcrowded entry-level jobs and drove up their own unemployment rate. The labor market did successfully absorb the great majority of the baby-boom generation as the relative wages of young people fell and their employment increased. But the adjustment was not complete, partly because the minimum wage and other rigidities prevented it.

Women have also greatly increased their share of the labor-force—from 32 percent in 1955 to 42 percent in 1979. The effect of this on the natural rate has been smaller, because the unemployment rate for mature females (4.3 percent in 1979) is not all that different from the rate for mature males (3.2 percent). Mature women made up 26 percent of the unemployed in 1979, compared with 24 percent in 1955.

Blacks have an unemployment rate that is about twice the unemployment rate of whites. But their share of the labor-force has risen only a little—from 11 percent in 1955 to 12 percent in 1979—so that this demographic change has added only a little to total unemployment. It should be noted that the effect of minorities on measured unemployment would have been greater except that blacks have increasingly become discouraged in their search for employment and have left the labor force. Black male labor force participation has declined sharply since the 1950s. The unemployment rate therefore seriously understates the labor market problems of minorities.

Figure 7 summarizes the changes in the composition of unemployment that have just been described. Total unemployment is broken into four demographic groups for the years 1955 and 1979. Figures 8 and 9 show different unemployment rates for various periods since 1950. Figure 8 compares the unemployment rate of males 35-44—the labor-force group with the most favorable unemployment experience—to the unemployment rate of blacks 16-19—the most disadvantaged group. It is striking that up until 1979, there is no upward trend visible in the unemployment of males 35-44. Their joblessness did not deteriorate until the 1980 and 1982 recessions. By contrast, the unemployment of young blacks grew steadily worse and worse. Only the 1965-69 period, when demand was extremely strong, shows a break in the steady deterioration. And even in the late 1960s the unemployment rate of young blacks was twice that of the early 1950s.

Figure 9 compares the official unemployment rate for all groups to the weighted unemployment rate constructed by George Perry.[21] Perry adjusts the official unemployment rate for demographic changes, and he then uses the adjusted rate in his studies of inflation. The relation between the two unemployment rates shown in figure 9 should tell us how much the natural rate has risen as a result of demographic changes. The two unemployment rates are virtually identical in the early 1950s, but the gap between them appears in the

Figure 6: The Relationship Between Unemployment and the Help-Wanted Index, 1951-82

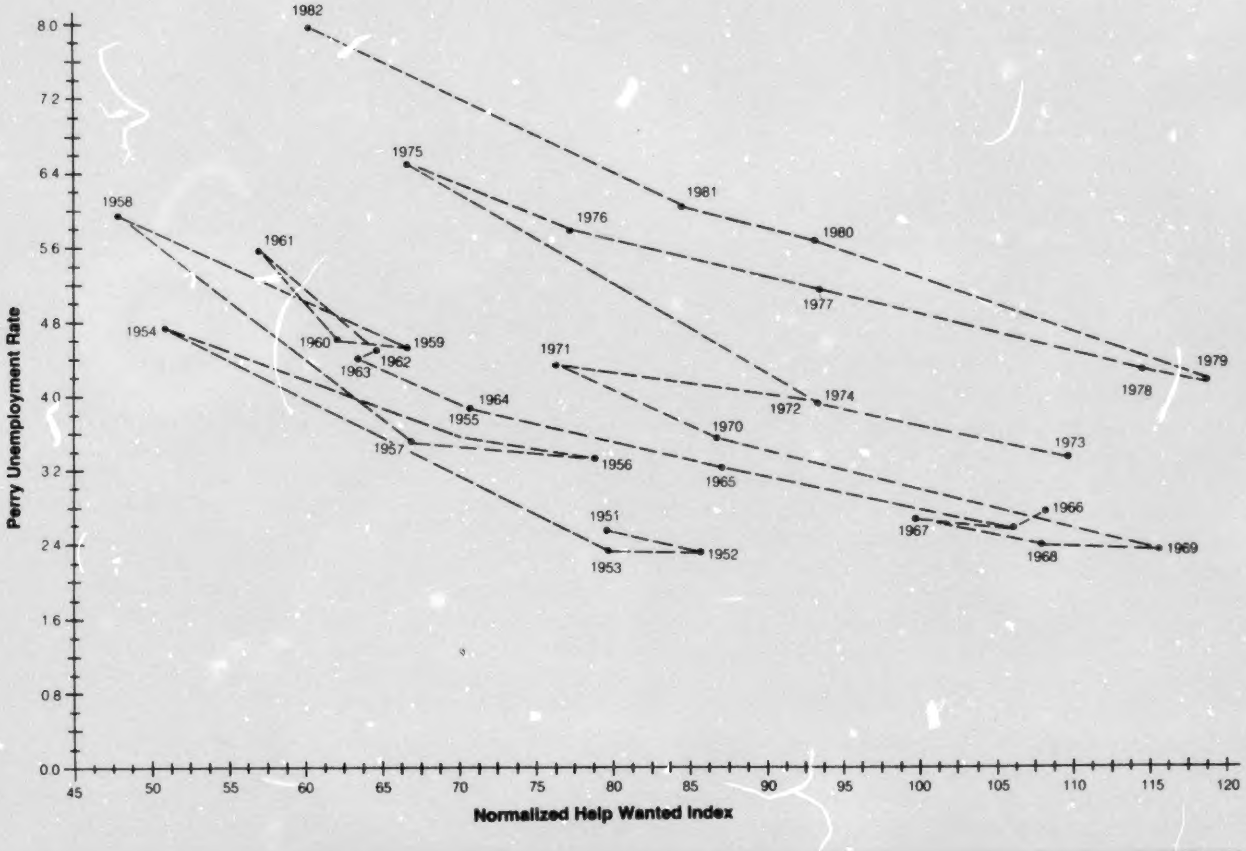


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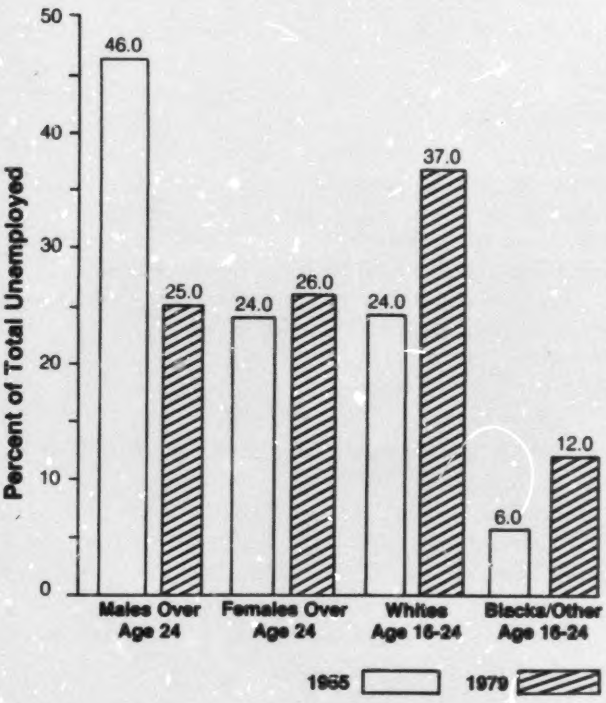
Figure 7: The Demographic Composition of the Unemployed, 1955 and 1979



1960s and widens to 2 percentage points by the late 1970s. The gap is actually a little smaller in the period 1980-82; it is 1.5 percentage points. This decline reflects in part the fact that demographic trends have begun to move more favorably as the baby-boom generation gets older. The decline also reflects the fact that the 1980 and 1982 recessions hit the heavy industrial sectors of the economy especially hard, and adult males make up the bulk of employment in this sector. On the whole, however, for the period from the late 1950s to the present, demographic trends have had a strong impact, adding about 2 percentage points to the unemployment rate.

Alternative Sources of Income

The amount of unemployment depends not only upon the number of jobs, but also on the willingness of the unemployed to accept the jobs that are available and on how hard they look for suitable jobs. If unemployed workers and their families are well protected against the financial sacrifice of being unemployed, then they can be expected to be more choosy about what jobs to accept and to search with a little less intensity for job openings.

The financial status of the unemployed can also affect the layoff decisions of business. Many businesses have some discretion about how many layoffs they make in response to short-run fluctuations in their sales. A business that typically keeps many of its workers on layoff part of the year will have to compensate those workers in the form of higher wage rates while they are working. To the extent that workers suffer only minor hardship from a spell of unemployment, however, this makes layoffs cheap to the firm as well, and encourages more layoffs.

Unemployment Insurance (UI). This is the main program that is designed to sustain the incomes of the jobless. It has been said that this program increases the unemployment rate both by encouraging individuals to prolong their spells of unemployment and by encouraging businesses to increase the number of layoffs they make.[22] There is empirical evidence to support the existence of both of these incentive effects. It seems that the effect of the program in increasing the frequency of layoffs is somewhat greater than the effect of the program on unemployed individuals. A study based upon data for 1978 found that if the UI program did not exist this would reduce the number of layoffs into unemployment by between one-fifth and a quarter.[23] The effect of the program on the overall rate of unemployment is substantially less than that, however, because only about one-half of the unemployed receive UI benefits. Different studies have come up with a variety of different estimates, so it is hard to be precise, but it looks as if the natural rate would be reduced by between one-half and one percentage point if there were no UI program.[24]

Even if we accept that UI can increase unemployment, this does not necessarily mean that the program has contributed to the upward trend, or to an increase in the natural rate of unemployment. After all, the program has existed since the 1930s. Figure 10 shows the trends in two important measures of the generosity of the UI program. The figure shows that there has been an upward trend in the ratio of the average weekly benefit to average take-home pay, but on the other hand there has been a downward trend in the fraction of the unemployed receiving benefits. If the two measures are combined to give an estimate of the fraction of lost wage earnings that are being replaced by UI, there is virtually no trend at all.

The evidence does not support the hypothesis that the unemployment insurance program has caused an increase in unemployment in the United States in the past 25 years. The program does make the rate of unemployment a little higher than it would otherwise be. But that has been true for a long time. Moreover the program also brings substantial advantages. It reduces the risk of income loss and helps sustain demand during recessions.

Other Sources of Family Income. Many of those who become unemployed are not providing the sole source of income for their families. There is more than one person working in many families; and, quite apart from UI, government transfer programs provide a substantial fraction of

Figure 8: Unemployment Rates of Males Age 35-44 and Black Teenagers
(Percent—Averages for Periods Shown)

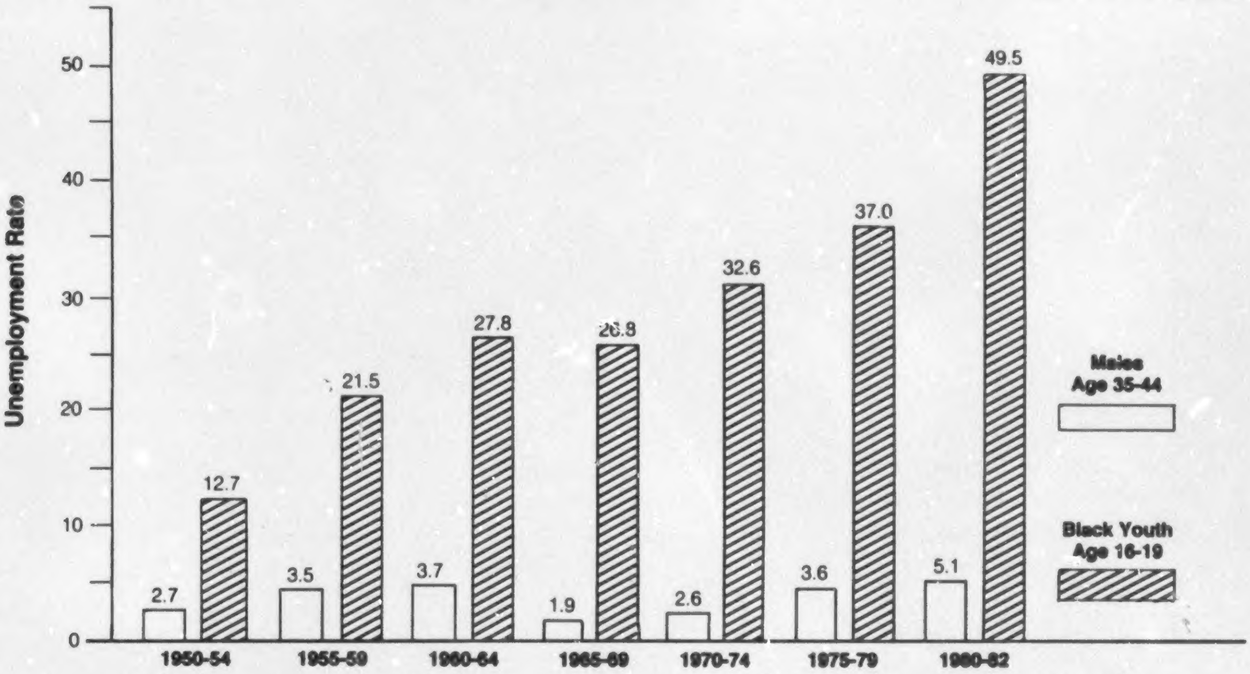
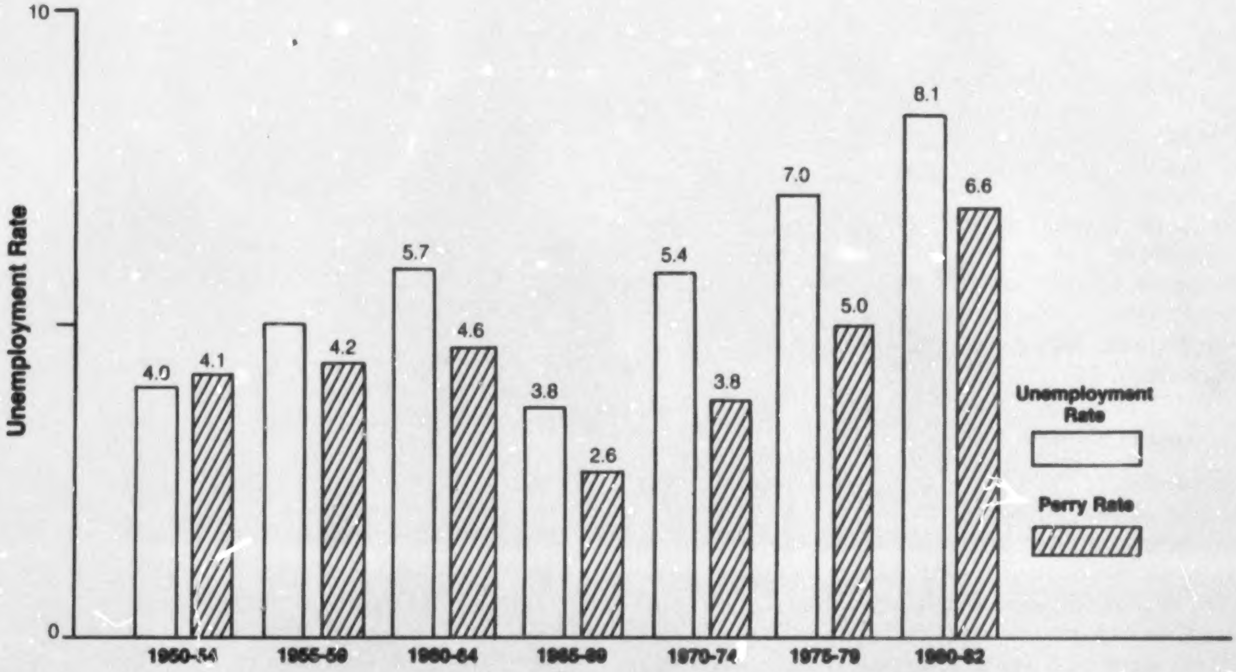


Figure 9: Actual and Demographically Adjusted Unemployment Rates
(Percent—Averages for Periods Shown)



disposable income in our society. These alternative income sources can influence individual behavior even if they do not depend specifically upon whether or not the recipient accepts a job. For example, a family in which both spouses are working is better protected against the loss of one job than is the family with only one worker. A family in which there are retired relatives receiving regular social security checks is in better financial condition following a job loss by the principal wage earner than is a family where elderly parents are solely dependent on their children for support.[25]

Many of the unemployed do live in families where someone else is working. In 1980, 49 percent of unemployed husbands had working wives and another 10 percent had wives looking for work. In the same year, 81 percent of unemployed wives had working husbands. We do not know the exact circumstances of all the unmarried unemployed. But we do know that nearly a half of the unemployed teenagers (aged 16-19) were enrolled in school as their primary activity. It can be expected that most of those teenagers were being supported by their families. Teenagers were 26 percent of the unemployed in 1979.

Given the increase in female employment, it might be expected that the importance of multiple earner families has increased over time and consequently, that this would cause the measured rate of unemployment to rise. The evidence does not support this, however, because there have been countervailing trends.[26] Certainly there has been a rise in the employment rate in the economy (the fraction of the population employed), even though unemployment has been rising. The rise is more modest than one might have thought, however, because the labor-force participation of men over 50 has been declining.

The other trend that has offset the impact of increased female participation is the decreased stability of the family. Family groupings are smaller and there are fewer husband-wife families, relative to the population. More women work now, in part because they are the only source of wage income for their families.

There is no doubt that government transfer payments to individuals have been rising as a percent of disposable income. Figure 11 shows the pattern.[27] Households were receiving 17 percent of their disposable income from the government during the 1980-82 period. And most of the revenue for these transfer payments came from taxes paid out of wage income. The government now takes a substantial slice of the income households receive from employment, and returns it to the household sector again in forms that usually do not require employment and frequently discourage employment. This may mean that work is being discouraged and joblessness encouraged.

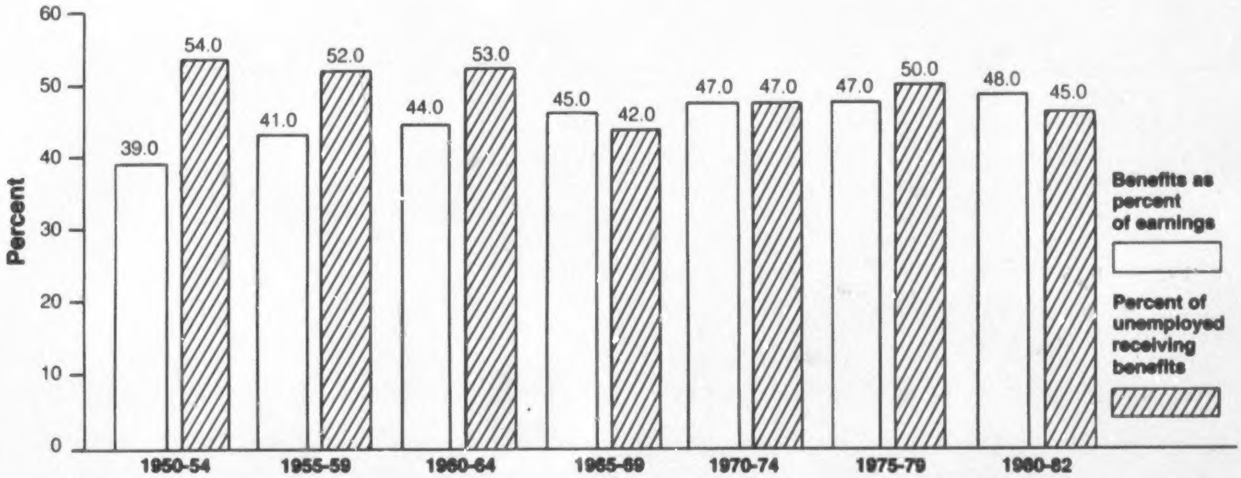
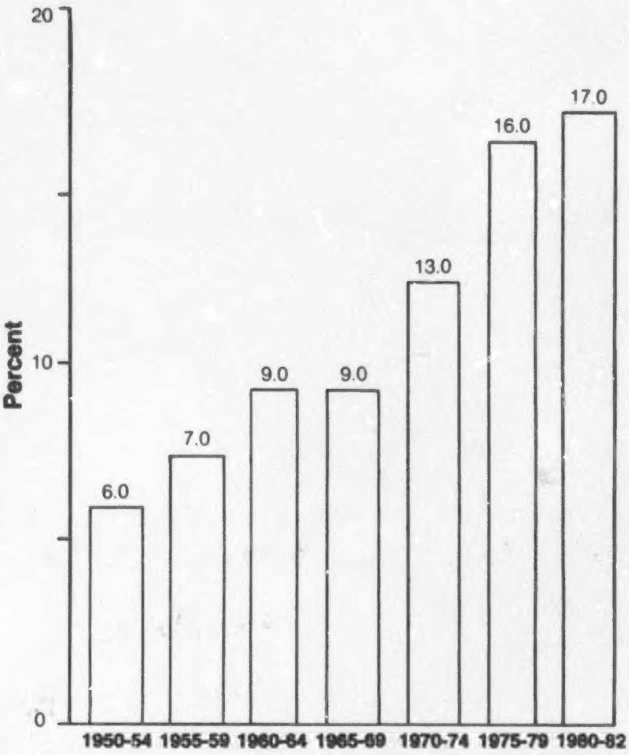


Figure 10: Unemployment Insurance Benefits and Coverage
(Percent)

Figure 11: Government Transfers as a Percent of Disposable Income



By far the biggest component of the transfers, however, consists of payments to the retired and the disabled. There is some evidence that these payments discourage employment, but no evidence that they result in higher measured unemployment. On the contrary, in the absence of these programs, many elderly and disabled persons would have had difficulty finding employment, and would have spent many months unemployed. Because of social security, such persons can drop out of the labor force and collect benefits. If anything, the growth of social security has probably lowered the measured rate.

The AFDC and food stamp programs have been cited as sources of increase in the unemployment rate.[28] These programs require some recipients to look for work as a condition of eligibility. The quantitative effect of these provisions must be very small, however. AFDC is paid almost entirely to females with young children. In 1978 only 7 percent of those counted as unemployed were women maintaining families, and only a fraction of this group were receiving AFDC and had their behavior affected by the program.

In a review of the overall effects of the growth of transfer payments on the natural rate of unemployment, Daniel Hamermesh[29] concludes that there probably has been no effect at all. He notes that there is a lack of hard evidence either way, but on the basis of what is known it is likely that some transfers have raised unemployment and others have lowered it.[30]

The Changing Mix of Jobs

The business cycle results in short-run variations in the number of jobs available in the economy and hence in variations in the amount of cyclical unemployment. The amount of structural unemployment can also be affected by changes in the availability of jobs. Employment in certain occupations or industries may be in decline, even though the level of demand in the economy as a whole is high. Structural change in the economy means changes in the mix of jobs that are available, and this can have an impact on the amount of structural unemployment.

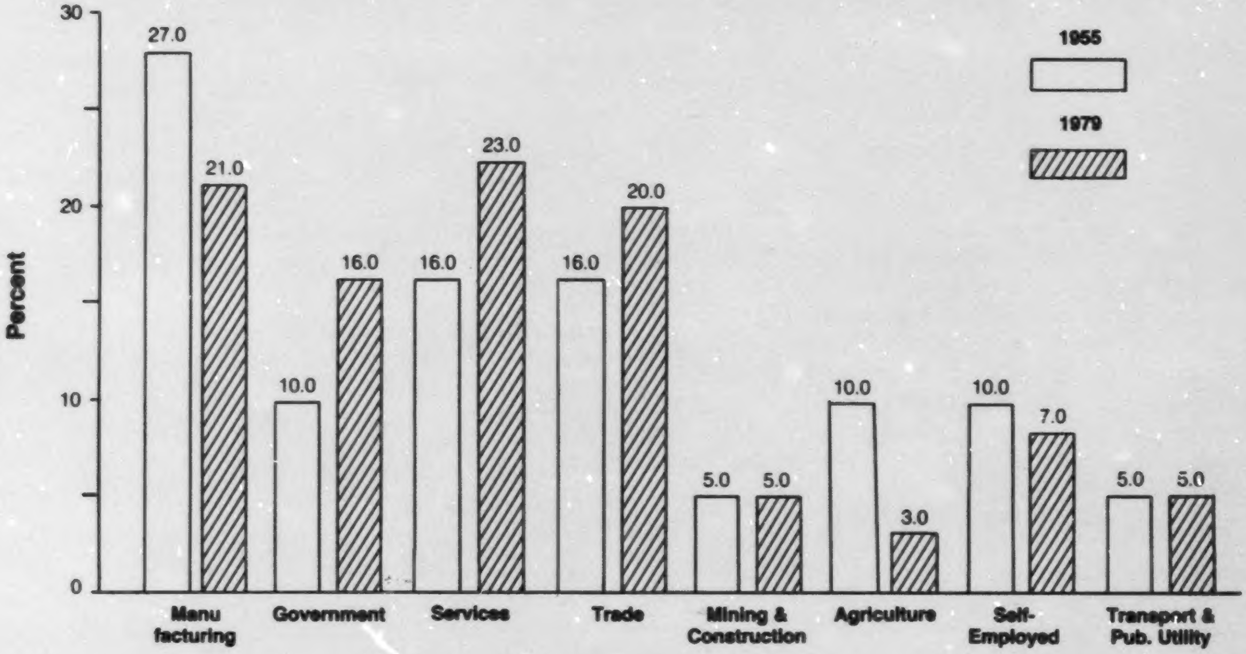
Figure 12 illustrates the changing mix of industry employment between the years 1955 and 1979. There have been major shifts in employment shares. Services, the government, and trade have substantially expanded their shares of employment, while agriculture, manufacturing and self-employment have all contracted. The declining employment share in manufacturing has been taken as evidence that there are many displaced workers who are unemployed, and foreign trade is thought to be the cause of the decline. This view is partly right and partly wrong. Foreign trade did not cause a major decline in employment in manufacturing during the 1970s, but employment has been hurt by trade since 1979. The essential difference between the periods 1970-79 and 1980-83 is the value of the U.S. dollar.

In a study of the employment effects of foreign trade during the 1970s,[31] Robert Lawrence found that employment gains in export industries just about equalled employment losses in import-competing industries. The serious unemployment problems in manufacturing during the 1970s were largely the result of the cyclical fluctuations in the economy.

Since 1979 the manufacturing sector has been hit hard again by recessions in 1980 and 1982 and also by the very substantial rise in the value of the dollar. Economic recovery in 1983 has helped this sector, but the overvalued dollar remains a serious problem. Economists keep expecting the dollar to fall again, but it keeps not doing so. High U.S. interest rates and the world-wide perception of the U.S. as a safe place for capital have brought a continued capital inflow. This holds the dollar above the level that would make U.S. manufacturers competitive in world markets. In addition,the European economies have had such sluggish growth and many developing countries are following austerity programs, so that sales of U.S. goods would be weak even without the problem of the dollar.

The basic reason for the declining employment share in manufacturing that is shown in figure 12 is that the manufacturing sector has had a faster rate of growth of output per employed worker than did the rest of the economy. The share of GNP produced by the manufacturing sector fell

Figure 12: Employment Shares by Industry, 1955 and 1979



very little between 1955 and 1979 (from 25.2 percent to 24.8 percent). But productivity growth (measured by output per hour) is somewhat higher in manufacturing and, in addition, hours per worker declined outside manufacturing, because of an increase in part-time employment. These trends are likely to continue; in fact, the gap in productivity growth rates has increased since 1979.

The Availability of Good Jobs

Whether or not the declining employment share in manufacturing is caused by foreign competition, the fact remains that it is occurring. And this decline in manufacturing employment is seen as part of a general pattern of decline in the fraction of "good jobs" available to workers who do not have college degrees or advanced technical qualifications. For example Bob Kuttner writing in *The Atlantic* says that "job opportunities in the United States are polarizing and that, as a result, the country's future as a middle-class society is in jeopardy."[32]

Among economists, the idea of a dual labor market or a two-tier labor market has long been emphasized. Arthur Okun, for example, has argued that the key to achieving low unemployment in the long run is to draw workers into upper tier jobs, where they are well-paid and achieve employment security.[33] If the number of good jobs has been declining, then this may have increased the amount of employment instability and job dissatisfaction and have increased the amount of unemployment.

The reported distribution of employment by occupation gives little support to the view that the number of good jobs has been declining, as figure 13 illustrates. The distribution of employment by occupational group has changed only moderately over the period 1959 to 1979.[34] At the top of the occupational distribution, the number of managers and administrators has declined because the number of persons running small farms has declined. There has been an offsetting rise in the number of professional and technical workers. The skilled and semi-skilled blue-collar occupations, craft workers and operatives, have declined a little. However, all of the decline has been among operatives, the lower-skilled category. Laborers are generally unskilled blue-collar workers and their share of employment has also declined, but a laborer's job cannot be considered a very good job.

If we assume for the sake of argument that laborers, sales workers, clerical workers and service workers are all holding bad jobs, then the share of employment in bad jobs increased from 42 percent in 1959 to 44 percent in 1979, hardly a dramatic change. And even this overstates the problem. The number of persons described as operatives has declined because there are fewer such jobs in manufacturing. But there has been a sharp increase in the number of persons operating computers and other office machinery. These workers are classified as clerical workers, but are doing jobs that are very similar to those of operatives.

If we examine the distribution of jobs by earnings rather than by occupation, there is more evidence to support the idea of a declining middle. The share of employment in jobs where the earnings are less than 80 percent of average earnings has been increasing over time.[35] To a considerable extent this changing pattern of incomes reflects the trends that have already been described. The bulge of young people and women has occurred at the same time as a change in the overall distribution of earnings. These demographic groups unfortunately have always had low wages. And a large number of them only work part time.

The declining share of employment in the middle range also reflects the decline in the number of well-paid unionized jobs. This is due in part to the declining share of employment in manufacturing, mining and construction that was shown earlier. It is also true that the specific industries where blue-collar wages are very high have had difficulty in keeping their costs and prices competitive with imports.

The Mix of Jobs: A Summing Up. The evidence does not support the idea that a shortage of good jobs is a major new reason for increased structural unemployment over and above the demographic trends already considered.

The long-run trends in industry employment reflect productivity growth differences among industries and some changes in the composition of expenditures by U.S. consumers. The changes in the occupational mix of employment are less than the changes in industry employment. There are fewer skilled workers needed in manufacturing as a share of total employment, but more skilled workers needed to repair all the consumer durables and business machinery. There are fewer operatives in manufacturing, but more persons operating office machinery.

There is some evidence of a declining middle in the earnings distribution. Much of this reflects demographic changes. Beyond this, the moderation in wage increases that has taken place recently should help prevent further employment-erosion in the high-wage industries.

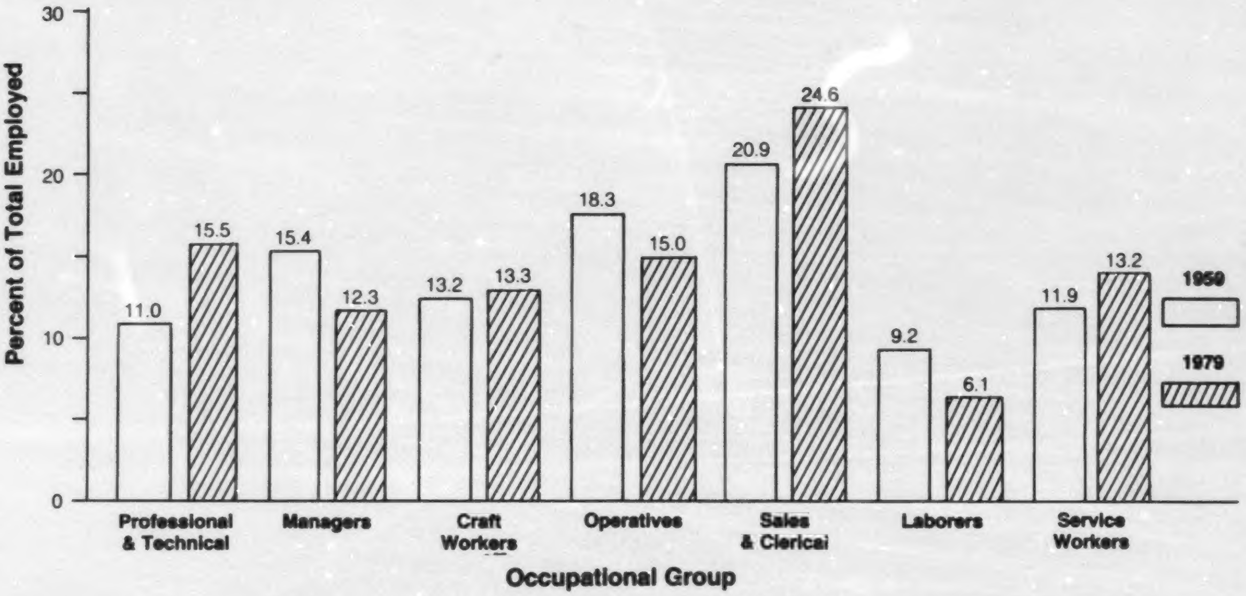
Conclusions

Changes in the Natural Rate

In the 1950s, low and stable inflation was consistent with unemployment in the range of 4 to $4^1/_2$ percent. When unemployment went over 6 percent after the Korean War and in 1958 and 1961, this brought inflation down. Solely as a result of demographic change, the natural rate rose by 2 percentage points by the late 1970s. This would put the natural rate in the range of 6 to $6^1/_2$ percent at that time.

The evidence for any increase in the natural rate beyond this is mixed. The shift in the relationship between unemployment and vacancies, even after demographic ad-

Figure 13: Distribution of Total Employed Among Occupational Groups for the Years 1959 and 1979



justment, is the most compelling reason to suggest a further increase. But to set against this there are (i) the implications of our review of the effects of transfer programs and occupational shifts, (ii) the absence of any increase in industry unemployment dispersion and (iii) the fact that after balancing the different findings, there was not much evidence of more than a demographic change in the natural rate from the inflation studies.

On the one hand, if we underestimate the natural rate there is the danger of starting up the inflation problem over again. But on the other hand, each percentage point added to a target unemployment rate adds over a million to the total number of jobless in the economy and cuts 2 to 3 percent from the GNP. A cautious estimate is that the natural rate was $6^1/_2$ percent in 1979, having risen from somewhere between 4 and $4^1/_2$ in the 1950s.

Based upon actual demographic trends since 1979 and projected trends through the rest of the decade, we can predict that the natural rate will decline to $5^1/_2$ percent by 1989.[36] This means that monetary and fiscal policies could be set to target an unemployment rate of about 6 percent by 1985 and a $5^1/_2$ percent unemployment rate by 1989, without causing an increase in inflation and without any special programs to reduce the natural rate. Of course it is possible that food and energy price increases, or other inflationary problems, will strike during the 1980s. In this case, the choices will be: (i) to accept the higher inflation, (ii) to allow unemployment to rise above the natural rate to offset the shocks, and/or (iii) to use some other anti-inflation policy, such as an incomes policy, to achieve a satisfactory tradeoff.

Cyclical and Structural Factors

The estimates of the natural rate also allow the calculation of a bottom line on the relative importance of cyclical and structural factors in explaining the rising trend of unemployment. Comparing the 1970s to the 1960s, there was an increase in average unemployment of 1.5 percentage points. This was split 40 percent to an increase in the amount of cyclical unemployment and 60 percent to an increase in the natural rate. Comparing 1980-82 to the 1970s, there was an increase in average unemployment of 1.9 percentage points, all of which was cyclical.[37]

Footnotes

1. The unemployment rate in the 1950s averaged 4.5 percent.

2. The total labor-force consists of all persons either employed or unemployed and the unemployment rate is the percent of the labor-force who are unemployed. The labor-force and unemployment numbers given here are based on the civilian labor-force that excludes the armed services. If service personnel are counted as in the labor-force and employed, this drops the unemployment rate by between 0.1 and 0.2.

3. David M. Lillien "The Cyclical Pattern of Temporary Layoffs in the United States," *Review of Economics and Statistics*, February 1980, pp. 24-31.

4. One reason overall unemployment is hard to bring down to very low levels in the United States is that when there are few layoffs there are relatively many quits, so that overall turnover remains high. For a discussion of this, see, for example, Robert E. Hall "Why is the Unemployment Rate So High at Full Employment?" *Brookings Papers on Economic Activity* 3:1970, pp. 369-402.

5. This number refers to 1974 when the unemployment rate was 5.6 percent. It and others quoted in this section are taken from Kim B. Clark and Lawrence H. Summers "Labor Market Dynamics and Unemployment: A Reconsideration," *Brookings Papers on Economic Activity* 1:1979, pp. 13-60.

6. The exact figure depends upon the particular years chosen for comparison and on the demographic group whose unemployment is examined. Clark and Summers found that only 15 percent of the increase in unemployment between 1974 and 1975 came from an increase in spell duration. George L. Perry ("Unemployment Flows in the U.S. Labor Market," *Brookings Papers on Economic Activity* 2:1972, pp. 245-78) looked at this issue in more detail and the one-third/two-thirds breakdown is drawn from his work.

7. This point is very important also to an understanding of what happens in recessions. Long-term unemployment does increase when the unemployment rate rises. Jobs do become much harder to find. The average duration of a spell rises only moderately because of a sharp increase in the number of very short spells of unemployment (often temporary layoffs) taking place at the same time.

8. The high rate of labor force withdrawal among the unemployed in the United States probably means that the figure of 16.6 percent in the table is understating the importance of long-term unemployment more for us than for the Europeans. It seems certain, however, that the differences revealed in the table would remain, even if an adjustment were made to the data to allow for this.

9. The other side of the story is that when demand expansion is reducing unemployment, the effect on inflation is also very moderate in the short run. The early 1960s was a period that benefited from this fact.

10. Unless there is some other offsetting factor at work.

11. This definition simply means that when the natural rate of unemployment is "negative," strong aggregate demand is cutting into structural and frictional unemployment.

12. This section draws on Alan Blinder "The Anatomy of Double-Digit Inflation in the 1970s," in Robert E. Hall, ed., *Inflation: Causes and Effects*, Chicago, 1982.

13. Wage and price controls were imposed in 1971 and removed in 1973. They held down the rate of inflation in 1971 and 1972 even though the economy was growing rapidly. Their removal contributed to the inflation surge that would have taken place anyway in 1973-74. On balance, controls had only a small effect on the level of inflation in the 1970s. They did change its timing.

14. Robert J. Gordon "Inflation, Flexible Exchange Rates, and the Natural Rate of Unemployment," in Martin Neil Baily, ed., *Workers, Jobs and Inflation*, Brookings Institution, 1982, pp. 89-159.

15. James L. Medoff, "U.S. Labor Markets: Imbalance, Wage Growth and Productivity in the 1970s," *Brookings Papers on Economic Activity* 1:1983, pp. 87-120. Medoff cites evidence for an increasing natural rate that is separate from his tradeoff model. We will be looking at such evidence also, later on.

16. George L. Perry "What Have We Learned About Disinflation," *Brookings Papers on Economic Activity* 2:1983, pp. 587-602.

17. There is an alternative explanation of the period 1981-83. The hard-line combination of Volcker and Reagan may have reduced inflationary expectations more rapidly than one would predict from the past.

18. Robert M. Solow *The Nature and Sources of Unemployment in the United States*, Stockholm, 1964.

19. Figures 2, 3 and 4 use the unemployment rate of males 25-54 as an indicator of the cycle because the earlier research done in the 1960s used this approach. There is a circularity involved, however, because male unemployment is also affected by dispersion. The figures were replotted using the utilization rate in manufacturing as an indicator and they showed the same findings. Figure 4 is based upon the SIC major industry groupings. However, the same results are obtained using about forty 2-digit industries over a shorter time-period.

20. Marc Bendick, Jr., "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" in *Report of the National Commission for Employment Policy, 7th Annual*, Washington, D.C., 1981, pp. 175-226.

21. George L. Perry "Changing Labor Markets and Inflation," *Brookings Papers on Economic Activity* 3:1970, pp. 411-41.

22. The UI program is experience-rated in an attempt to offset the incentive to make layoffs. In practice the experience-rating provisions are not very effective.

23. Kim B. Clark and Lawrence H. Summers "Unemployment Insurance and Labor Market Transitions," in Martin Neil Baily, ed., *Workers, Jobs and Inflation*, Washington, 1982.

24. Clark and Summers, *op. cit.*, and Daniel S. Hamermesh, "Transfers, Taxes and the NAIRU," in Lawrence H. Meyer, ed., *The Supply-Side Effects of Economic Policy*,pp. 203-30.

25. The argument here is very similar to the argument used in the case of UI. UI is treated separately because the benefit depends upon whether a person remains unemployed. Each dollar of UI benefit can be expected to change job search and acceptance by more than each dollar of transfer income from other programs.

26. Deborah Pisetzner Klein "Trends in Employment and Unemployment in Families," *Monthly Labor Review*, December 1983, pp. 21-25.

27. Transfer payments include old age and survivors insurance, unemployment insurance, workers compensation, general assistance (AFDC), food stamps, disability insurance, and supplemental security income.

28. Kenneth Clarkson and Roger Meiners "Governmental Statistics as a Guide to Economic Policy: Food Stamps and the Spurious Increase in Unemployment Rates," *Policy Review* 1 (Summer 1977), pp. 27-54.

29. Daniel Hamermesh "Transfer, Taxes and the NAIRU," in Laurence H. Meyer, ed., *The Supply-Side Effects of Economic Policy*, Boston, 1981.

30. Hamermesh does say that transfers reduce employment and increase joblessness. But the increased joblessness does not show up as measured unemployment.

31. Robert Z. Lawrence "Is Trade Deindustrializing America? A Medium-Term Perspective," *Brookings Papers on Economic Activity* 1:1983, pp. 129-171.

32. Bob Kuttner "The Declining Middle," *The Atlantic Monthly*, July 1983, p. 60.

33. Arthur M. Okun "Upward Mobility in a High-Pressure Economy," *Brookings Papers on Economic Activity* 1:1973, pp. 207-52.

34. The year 1959 is used rather than the earlier year 1955 because of the availability of data.

35. Data from the U.S. Bureau of the Census and the U.S. Bureau of Labor Statistics is cited in table 2 of *Deindustrialization and the Two Tier Society*, published by the AFL-CIO in 1984.

36. The sharp episodes of recession since 1979 make it hard to follow the trends year-by-year. If anything, it looks as if surprisingly slow labor-force growth is reducing the natural rate somewhat faster than expected.

37. Since the natural rate is now falling, more than 100 percent of the change in unemployment from the 1970s to 1980-82 was cyclical.

The Path to Full Employment

Alan Cranston

There are no magic buttons the federal government can push to produce full employment—but full employment can and must be achieved. Our economic problems will be solved only by the thought, faith, good will, and hard work of many people in the public and private sectors. It is time to put full employment at the top of the domestic agenda and to develop a national spirit of cooperation that can achieve that goal.

Statement of Principles

An effective full employment strategy must be based on the following principles:

1. The vitality of the United States economy depends on the continued vitality of the work ethic. People who work should be able to earn a good living; people who work hard should be rewarded for their effort and their talent.
2. Anyone who wants to work and is able to work should be able to find a productive job.
3. Government should make certain that all of its policies and programs encourage people to work.
4. Every American should have an equal opportunity for employment, regardless of race, religion, gender, age, or disability. We must be committed to pay equity: equal pay for equal work and for work of comparable worth.

The Importance of Work

Full employment is a moral imperative in a fair and free society. It is a realistic, attainable goal. And it is a legitimate yardstick by which to measure the success or failure of our economic policies.

Business people measure the economy's success predominantly in terms of profit. That's perfectly understandable: profits are necessary to reward investors, to assure job security and economic growth for management and workers, to finance corporate modernization and expansion, and to drive the economy forward.

But from a public interest viewpoint, profit-making alone is an inadequate measure of the success or failure of the American private enterprise system. In the minds of many Americans, jobs are more important in gauging the nation's economic well-being than all other economic indicators combined. People have a right to an economic system that will provide them with jobs. While business people see the production of goods and services as a means of making profits, the average American expects profitable businesses to produce not only goods and services but jobs.

That expectation is the very premise upon which most people accept the concept of profits and capitalism. Of what use, they ask, is the bountiful production of goods and services without the money to buy them?

Many economists, business leaders, and government officials tend to view the creation of jobs as a kind of by-product, a side-effect of a functioning economic system. We should turn that concept around: it is a basic function of the free enterprise system to create jobs.

A job is part of the American Dream, part of what we Americans understand to be the meaning of the pursuit of happiness—a part of every American's "unalienable rights."

Karl Marx was wrong in charging that capitalism inevitably creates unemployment. Private enterprise—in voluntary cooperation with labor and government—can, in a free, prosperous society, produce decent jobs for all. And with the right programs, we can do it without fueling inflation.

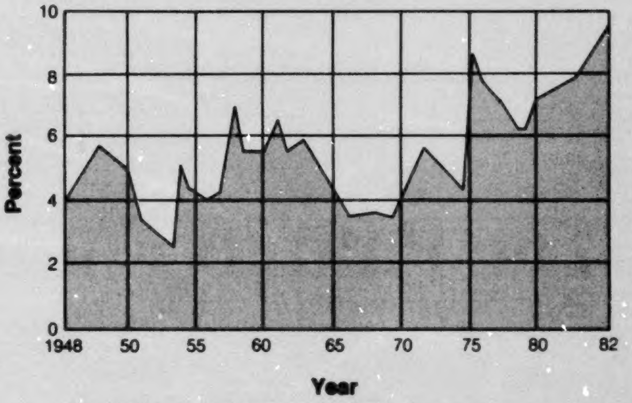
If we can agree that full employment is a reasonable measure of the success of our economic system, then it follows that an economic policy that puts people out of work is a policy of failure. That holds true even if, as the Reagan Administration claims, its objective is to curb inflation. Such economic thinking is not only wrong, it is wasteful. Economist Otto Eckstein warned that:

> The human cost of unemployment is generally recognized, but other economic costs will also bear heavily on our future: disruption of capital formation, slow growth of our capital stock and therefore slow technological progress and reduced productivity improvement.*

For every point that inflation has come down since 1980, the economy has lost over $1 trillion in productive output because of the recession.

Measured by the yardstick of full employment, the economic policies of all recent Administrations—Democratic and Republican alike—have generally produced disappointing results. But President Reagan's economic policies have been particularly disastrous (see chart).

Unemployment
(Average annual percent of civilian labor force)



Source: Economic Report of the President, 1982, B-29.

Despite the present recovery, unemployment is still higher than it was when Ronald Reagan became President. Nearly 8.8 million persons are still out of work, or over 14.2 million counting both the unemployed and those working only part-time but wanting full-time jobs. More than 50 percent of all teenage blacks are jobless. Some 34 million Americans live at or below the official poverty level.

These are the consequences of confused economic policies, supposedly designed to combat inflation. There are far better ways to control inflation than by "cooling down" the economy, as it is euphemistically put.

Increased Productivity

Increased productivity, not higher unemployment, is the tool to use to control inflation.

In 1978, the Humphrey-Hawkins Full Employment Act set a 4 percent unemployment rate as a national goal. Today, some economists argue that we cannot reduce unemployment below 6 or 7 percent without refueling inflation.

A 4 percent unemployment rate without inflation can again become a realistic goal if we make sure that increases in wages and prices are supported by comparable increases in productivity.

A substantial enhancement of the nation's productivity must be made our top economic priority in the battle for full employment. That means applying all of our vast intellectual and creative talents to planning how best to utilize our capital and human resources.

How do we do this? The answer does not lie in enacting more laws or issuing new regulations. Rather, we should demand that our nation's leaders rise to this momentous challenge, uniting our often discordant interests in helping formulate and implement a cohesive, comprehensive, truly innovative economic program.

The following are the essential elements of such a program.

Business-Labor-Government Productivity Teams

In 1945, the bombed-out industries of Western Europe and Japan began the long, slow process of rebuilding from the debris of war. They got financial and technical help from America. But without our help they discovered another element that proved essential to their success: that the various segments of their respective economies—management, labor, and government—had to cooperate with one another if each nation was to recover and meet its economic goals.

The American economic machine, untouched by the war's devastation, faced no such challenge. We led the world's economies through the 1950s and the 1960s, secure in our economic preeminence. Then the inevitable happened—the other economic democracies began to catch up to and in some cases to surpass us.

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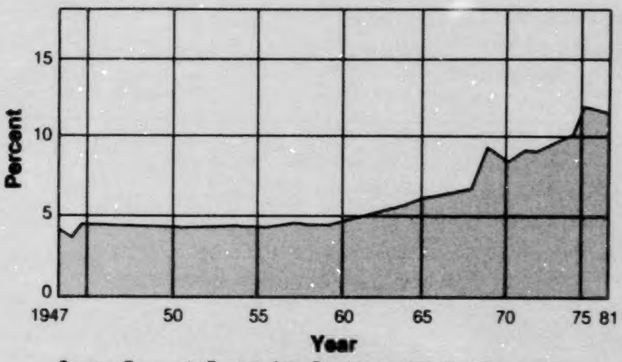
*"Disinflation," in *Inflation: Prospects and Remedies*, O. Eckstein, R.T. Gordon, J. Popkin, Center for National Policy, Alternatives for the 1980s No. 10, October, 1983, Washington, D.C., page 12.

Import Competition
(Imports as percent of U.S. gross domestic product)



Source: Economic Report of the President 1982, B-1, B-8.

Our economy is at a critical juncture. We are not meeting our competition. Foreign goods are not only pushing American products out of foreign markets but out of the domestic market as well (see chart).

Two out of 10 automobiles sold in the U.S., 4 out of 10 calculating machines, 8 out of 10 motion picture cameras, 9 out of 10 black and white TV sets, and 10 out of 10 office dictation machines and tape recorders are foreign imports produced by foreign workers.

Many of those products were once produced by American workers who are now among the millions of Americans out of work or struggling to get by on part-time jobs. They lost their jobs because the Germans, the Japanese, and a host of other foreign competitors were able to produce better products at lower cost with more modern tools and systems. Many Third World countries also are now entering the international arena as vigorous, powerful competitors. We are in grave danger of losing still more millions of jobs.

We can recapture our economic world leadership. But to do so America must learn the lesson our competitors learned three decades ago. Transcending all factors in an American drive for full employment is the need for a fundamental change in relations among government, business, and labor.

These three traditional adversaries must forge a more cooperative national industrial policy in pursuit of their common, long-term interests. They must join in putting Americans back to work, in rebuilding our basic manufacturing industries, in encouraging our newer industries, and in reviving America as a successful world competitor.

The President of the United States should call on representatives of labor, business, and other interested groups to join government in an industrial policy:

- formulated at national, local, and industrial levels by the parties with the most at stake participating directly in give-and-take discussions,
- covering the concerns and conduct of a large number of interested parties, and
- motivating all participants to work together—rather than at cross purposes—toward a common end to solve common problems.

A new cabinet-rank position, the Industrial Policy Adviser to the President, should be created. The Adviser's chief function would be to forge business-labor-government productivity teams and to serve as the President's chief industrial negotiator. The office should be backed up by a small, highly professional staff—a kind of industrial strategy "S.W.A.T." team.

After identifying a particular industry or region as a promising target in need of special attention, the Industrial Policy Adviser would preside over the creation of an Industrial Assistance Corporation (IAC)—a quasi-private, non-profit corporation of limited life-span organized specifically (a) to restore vitality and competitiveness to particular industries, regions, or communities, and (b) to negotiate the tradeoffs that may be necessary for agreement.

Voluntary wage and price restraints linked to productivity would be negotiated jointly. In return for such restraint, government would pledge not to impose compulsory wage-price controls and to pursue economic and trade policies to promote full employment and full production.

Government would also pledge policies to:

- Counter price increases caused by monopolies, and to promote competition in the market place by such measures as "jawboning," anti-trust action, and price guidelines.
- Strengthen the basic industries—such as steel, machine tools, rubber, automobiles, ship building, textiles, chemicals, and electronics—that are so essential to our economy and our national defense.
- Give special attention to small business, which can be expected to create 50 percent of the new jobs in an expanding economy.
- Encourage private investment in research, development, and technological innovation, with direct government sponsorship of research that is needed but is not being adequately supported.
- Promote increased support at all levels of government for education—the single most important means of developing employable, productive people.

Other tradeoffs could include:

On the part of the government:

- Extending credit or loan guarantees for reinvestment and modernization.
- Extending unemployment insurance benefits.
- Modifying trade, anti-trust, and tax laws.
- Retraining and relocation assistance.

On the part of management:

- Reinvesting profits.
- Forgoing dividends for a period.
- Offering greater commitment to job security.
- Making larger investments in employee training and retraining.
- Restraining price increases.

- Giving workers a greater personal interest in company success, perhaps by profit-sharing plans—in the form of annual cash or stock bonuses—based on overall company productivity and profits, and the opportunity to participate in management activities, such as quality control, and the company decisions affecting their future.

On the part of labor:

- Modifying contract terms that may impede production efficiencies and cost savings.
- Modifying work procedures to achieve greater productivity.
- Modifying wage and benefit demands.
- Participating in and contributing to employee training, retraining, and relocation efforts.
- Participating in new forms of employee compensation, such as sharing in company profits and losses.
- Showing greater receptivity to new technology.
- Giving up multi-year contracts for single-year contracts.

Each IAC would have the help of highest quality professional managers who would review all relevant governmental policies in such matters as international trade, federal regulation, taxes, anti-trust, and government procurement—to cite just a few examples.

The IACs should have access to private capital markets and to government-insured funds where private capital would not otherwise be available.

Fiscal-Monetary Policy and the Deficit

While full employment is possible only with sustained economic growth, sustained growth is possible only in a non-inflationary environment. Therefore, any plan to achieve full employment must begin with sound fiscal and monetary policies that will help increase productivity and hold down inflation while promoting economic growth.

An increase of just one percent in the Gross National Product would generate an estimated one million additional jobs. But a plan for full employment cannot be carried out in the context of $200 billion deficits and high interest rates which throttle business expansion. And for every one million Americans thrown out of work, the federal deficit increases further, by approximately $30 billion.

The most recent authoritative forecast is for a cumulative budget deficit of $1 trillion over the next five years, doubling the national debt.

Financing a deficit of such monstrous proportions will consume two-thirds of net private savings each year and add $80 billion to the cost of financing the national debt. At that rate, by 1986 nearly one-third of all revenues from personal income taxes will go just to pay the interest on the debt.

Quite clearly we must take prompt measures to close the financial gap both by lowering the level of federal spending and raising the level of revenues.

A number of steps are necessary:

1. *There is no realistic escape from the necessity of raising taxes.*

To bring revenues back to a healthy level, we should:

- Raise taxes to offset the third year of the Kemp-Roth tax cut which went into effect last June.
- Defer or repeal the indexing of tax rates scheduled to go into effect in fiscal 1985.
- Close down loopholes, tax shelters, and other tax avoidance schemes which distort economic incentives and are of little or no value to the general economy.
- Revise the corporate tax structure on an industry-by-industry basis so that profitable firms can no longer get away with paying little or no corporate income tax as at present.

2. *We must bring excessive military spending under control by bringing the arms race under control.*

Without doubt we can cut the defense budget—a proposed $305 billion in 1985 and a projected $345 billion in 1986—without in any way weakening national security. The word "Pentagon" seems almost synonymous with cost overruns, redundancy, and extravagance.

We don't need, and should save the billions that are scheduled to be spent on, the MX—"the missile without a mission"—the vulnerable Bradley weapons carrier, more chemical weapons, nerve gas and President Reagan's "far out" Star Wars defense.

Nonetheless the hard truth is that we will not make really deep cuts in military spending unless the Soviet Union also agrees to reduce its military buildup. That means we must jointly slow down and halt the arms race in nuclear and conventional weaponry that puts all our lives and both our economies in such peril.

When World War II ended nearly 40 years ago, the U.S. economy was on a war footing. Because of the arms race, we've never really stopped being in a war economy.

From 1946 until Ronald Reagan took office we spent $2 trillion for the military. Because of Reagan's defense budgets, we'll be spending an additional $1.7 trillion through fiscal 1986. That's $3.7 trillion for 40 years of military hardware and personnel—the equivalent of 80 percent of our current national wealth.

One can argue whether that is too much money for the military, or not enough. What one cannot argue with is the obvious fact that money, materials and talent are limited and that whatever goes into the military budget is no longer available for any other use either by private industry or by government.

That $1.7 trillion President Reagan wants for the military, for example, is no longer available for private borrowing by non-defense industries to invest in plant modernization and increased productivity.

Nor is it available for federal, state, and local governments to invest in reviving America's crumbling infrastructure, its roads, bridges, railroads, and harbors.

Clearly, ending the arms race would not end all military spending; we will always need a strong national defense. But just as clearly, ending the arms race would make it unnecessary to maintain military spending at anywhere near today's exorbitant levels.

What capital improvements might be made by private industry and government with the funds thus saved?

Here are some possibilities:

- Cutting the five-year military budget just 7 percent would reduce government borrowing by $100 billion—enough to rehabilitate America's entire steel industry and make it again the most efficient in the world.
- Being able to do without the Navy's F-18 fighter program would reduce government borrowing by $34 billion—enough to enable us to catch up to Japan's level of modern machine tool stock.
- Eliminating just the initial cost of the MX missile system would reduce government borrowing by $34 billion—enough for a comprehensive 10-year energy-efficiency effort to cut oil imports in half.
- Not having need for the cruise missile program would free up $11 billion—enough to bring public works back to the level they were at 20 years ago.

Our economy is being further drained by the waste that seems inherent in military procurement for the arms race.

For example:

- The cost overrun on the Navy's Aegis cruiser was $8.4 billion—enough to fund the research and development Detroit needs to produce an American car that can get up to 100 miles-a-gallon.
- The cost overrun on the Trident submarine and the F-16 fighter was $33 billion—enough to rebuild one out of five of our deteriorating bridges.
- The cost overrun on the F-18 fighter was $26.4 billion—enough for the electrification of 55,000 miles of mainline railroad.

In short, continuing arms spending at the current level is the financial equivalent of giving up a domestic steel industry, turning Detroit over to the Japanese, and abandoning our effort to rebuild America.

Only massive new capital investment in technology and productivity can get our millions of unemployed men and women back to work—and protect those lucky enough to be still working. But with monumental military defense spending and present and future budget deficits of $200 and $300 billion "as far as the eye can see," capital for our civilian economy is hard to come by.

American companies are so desperate for capital with which to rebuild, renovate, and remain competitive that many are reduced to taking money out of the pockets of their workers. Some have held back on wage and salary increases and dipped into pension funds.

If the Chrysler Corporation could have had access to a financial market that had not been depleted by the diversion of capital to defense spending, Chrysler workers would not have needed to give back more than $1 billion in wages and benefits to help the company survive.

The general public is also being hit. By devouring so much capital, defense production keeps interest rates high—for business people, homebuilders, and consumers in general. A 12 percent reduction in defense spending over the next five years would free up an additional $200 billion in capital—and bring down interest rates an average of 2 points.

Every day, every month, every year that the arms race goes on pushes us further and further behind in the free world's fiercely competitive economic race. In a recent typical year, the U.S. spent $33 on the military in gross fixed capital for every $100 we spent in the civilian economy. The ratio for West Germany that same year was $20 to $100; for Japan, $3.70 to $100. The Soviet ratio was $66 to $100.

Not surprisingly, the Japanese economy has out-performed the world and the Soviet's is the world's worst for a major power.

The continued diversion of so much U.S. and Soviet wealth and talent to the arms race not only jeopardizes their and our physical survival, it endangers their and our economic survival—if we are so fortunate as to avoid World War III.

3. *We must also continue to exercise restraint in non-defense spending.*

Domestic spending that is investment-like in character—such as strengthening education and rebuilding our infrastructure—improves our human, physical, and environmental resources. But such spending must be done wisely.

The same, of course, is true of our social programs—though it should be noted that spending for social security, medicare, and all social programs is on a direct downward course as a percentage of GNP and will fall from the 1980's 15.1 percent of GNP to 13.6 percent in 1986 *without any further action by Congress.*

Major subsidy programs—such as the billions in subsidies for agriculture and industry—should be supplanted by the market wherever the market can produce better results. Instead of paying farmers not to produce, government support and market intervention should focus on expanding exports and assuring stable supplies at fair prices.

Other significant components of federal spending are tied to the overall performance of the economy and, in the case of health care, to a rapid rise of costs within the health services sector. The latter is an unusual segment of our economy in that providers to a large extent control not only the supply of services, but also the demand.

That peculiarity is a main reason why government, business, and individuals spent an astonishing $321 billion on health care in 1982—a figure that will continue to soar unless we do something to stop its escalation, or at least slow it down.

The Reagan "solution" to the rising costs of entitlements and other human service needs has been to penalize the victims of poor health and poverty by reducing benefits and services.

But unemployment is the real reason why so many more people have had to fall back on entitlements such as unemployment insurance, food stamps, medicaid, and Aid to Families with Dependent Children. And the real solution to that problem is jobs.

Similarly, runaway inflation is a major reason for the rising costs of entitlements such as medicare and medicaid. The answer is to deal realistically with the nation's health needs, especially the need for preventive care.

4. *We must pursue compatible monetary and fiscal policies.*

With a fiscal policy of fair taxation and spending restraint behind it, monetary policy could be designed to promote economic expansion.

The Federal Reserve Board must have a policy that is pro-growth. It must allow for a slow, steady, predictable increase in the supply of money and credit at reasonable interest rates.

Federal Reserve Board policies must be coordinated better with those of the Executive Branch and the Congress. The Secretary of the Treasury should be a member of the Federal Reserve Board; the terms of the Chairman and the Vice Chairman should be co-terminous with the terms of the President of the United States; the terms of the Board members should be shortened to 7 years from the present 14 years, and the Fed's budget should be subject to the ordinary appropriations process in Congress.

Government also must intervene directly to bring balance back to the international rates of exchange.

The dollar has appreciated sharply against other currencies, giving foreign industries and exporters a distinct price advantage. Yet the Reagan Administration has taken a hands-off stance and will not act forcefully to bring the dollar into line with other currencies or to press other nations to keep their currency in line with ours. The over-valued dollar currently is doing serious damage to our ability to compete with imports at home and in markets abroad.

Foreign Trade

Our foreign competitors get substantial financial and political backing by their governments. Governments such as Japan's haven't hesitated to intervene internationally on behalf of their industries' well-being. Our government, in contrast, has responded with tepid *laissez faire*-ism and Pollyanna trade negotiations.

Many of our mid-size companies cannot keep up with large, well-financed foreign competition, particularly Japanese. Even when American companies have made truly stunning technological breakthroughs, they have lacked the capital resources to develop full market potential for their products.

Time and again, American innovations have been seized by alert Japanese companies with the capital resources that enable them to surge into the American market and sell us our own inventions!

For the most part this is not due to lack of imagination or lack of will by American industry. We are not being outthought or out-managed; we are being out-financed. It used to be said that foreigners beat us with cheaper labor. Today they are beating us with cheaper capital.

We should be more determined in defending American industries hurt by foreign trading practices. And we should be more aggressive in promoting the American exports vital to our economic health and to the well-being of American workers.

The United States remains a superior supplier to both industrialized and developing nations. We should be bullish about our capabilities, particularly in such areas as health services, energy development, communications technology, agricultural production, and the extent to which our outstandingly efficient small business community can contribute to our trade success.

The following program could quite conceivably double our exports over the next four years:

1. Greater government loan assistance to increase exports by small businesses and farmers, with a marked expansion in the use of the Export-Import Bank.
2. Reinvigorated efforts to strengthen the General Agreement on Tariffs and Trade (GATT) to break down trade barriers against American exporters. Key bilateral agreements should be incorporated into the GATT framework, and its coverage expanded.
3. Industry-wide plans of trade adjustment and more speedy relief for import-damaged industries.
4. Legitimate "bargaining chips" to encourage fair competition.
5. Targeted U.S. foreign aid to develop markets for American goods and services.

Creating Jobs That Serve the Public

Plainly, the government cannot hire all of the 14.2 million Americans needing full-time work. Only a revived private sector can do that. But the federal government does have a moral obligation. Public jobs should be created during periods of recession when unemployment rises—and phased out when private industry is able to absorb the unemployed.

Certain principles of a sound public jobs program should be borne in mind:

- Jobs should be made available quickly in response to changing economic conditions; unemployment tends to generate more unemployment.
- Projects should be labor-intensive so available funds can cover more of the unemployed.
- Jobs should be targeted to areas of highest unemployment, with people who have been jobless for long periods of time given first priority.
- There should be a mix of jobs corresponding to the mix of individuals in the ranks of the unemployed.

We have a desperate need for serious, large-scale public works projects contracted out to private industry. We should be putting the unemployed to work rebuilding America.

But we need more than the usual construction-type jobs. Women, disabled individuals, elderly persons, and untrained teenagers by and large may not be equipped or hired for such work. Therefore, community-service jobs also should be made available in such activities as public health and safety, day-care centers, in community counseling centers, and nutrition programs for elderly persons.

Establishing a Voluntary National Service

Not since the 1960s have we as a nation called upon the young people of America to serve their communities and their country. We need to mobilize the energy and idealism of young people—and the experience and wisdom of older people. We must encourage them to volunteer for at least one year of national service.

I believe they would respond in ever-increasing numbers as such a program captures the public's imagination and appeals to the patriotism of our citizens.

National service in one form or another could contribute immeasurably to our social and economic well-being. Projects should focus on important needs not now being adequately met by private or public sectors—needs such as park and forest conservation, disaster relief, crime prevention, health care, service to senior citizens and children, anti-poverty work, international development, and national defense.

Instead of putting youth into competition with older workers—as President Reagan's proposal for a subminimum wage for teenagers would do—voluntary national service would take young people off the unemployment rolls. It would give them productive opportunities to serve their country—either in military or non-military activities—and help stop the deterioration of government-sponsored social services.

Combatting Structural Unemployment

Other initiatives are needed to assist people who want to work but who do not have the necessary education, skills, or training. They are often referred to as the "structurally unemployed"—people who cannot find work even when jobs are readily available.

Lifting people out of the generational cycle of poverty and dependence would reduce the costs to federal and local governments, broaden the tax base, and bring added revenues to the Treasury. Most importantly, it would break the legacy of idleness that has imprisoned generation after generation in bitterness and despair.

There are several things we can do to help—and we can help the rest of America's workers in the process:

- We should remove disincentives to work. For example, the income tax, when applied to lower-level incomes, reduces already limited take-home pay and raises the economic attractiveness of staying on welfare.
- We must make certain our schools prepare a literate workforce that can read, write, think, and learn. New and emerging technologies require workers with specialized skills and the versatility to adapt to changing trends.
- We must make certain, too, that school-based training programs are tied closely to the real needs of the market place and lead to actual jobs. Government can help through direct assistance to schools which contract with industry by giving tax advantages to industries that participate in educational programs and by joining business and labor in sponsoring the training or retraining of unskilled and underskilled workers.
- We need intensive training programs in areas of high structural unemployment. In Detroit, for example, where unemployment rates run as high as 20 percent and generally stay about 12 percent, the city, state, and federal governments should join with labor and industry to sponsor such programs. Such efforts must be coupled with efforts to place trainees in meaningful jobs.

First and foremost, we must stop thinking of these people as "unemployable."

Equal Employment Opportunity

A full employment policy must also be a fair employment policy. In establishing economic policies to stimulate the availability of jobs for all, we must place special emphasis on closing the gaps between minority and non-minority employment rates and earnings, and between male and female earnings.

Much of the progress in equal employment opportunity of the past few decades has been eroded under the Reagan Administration. As new waves of unemployment ripped through our workforce, individuals victimized by past discrimination often were the first to be hit again. It is especially important during times of economic adversity—when progress may seem the hardest to sustain—that we do not betray our national commitment to the eradication of discrimination and the attainment of equal opportunity for all.

We must be particularly sensitive also to the problems of women in the workforce. They are not merely secondary wage-earners. Most women, like most men, work because of economic necessity. Two-thirds of the women in the workforce are either sole providers or married to men whose annual incomes are less than $15,000.

There has been a tragic increase in the number of women and children living in poverty. For most men employment is a clear way out of poverty. On the other hand, many women with full-time jobs still live in poverty because their jobs do not pay a living wage.

Jobs filled principally by women are underpaid in contrast to jobs of comparable worth filled principally by men. Discrimination in setting wages for women workers is a pervasive and devastating problem. Eliminating these pay inequities must be a major part of a full and fair employment policy.

Conclusion

An economy of full production and full employment without inflation is well within reach of the American people and the free enterprise system. We must shake off a decade of economic confusion and decline, revive and reinforce our eroding traditions of hard work and enterprise, and reestablish our leadership in productivity, world trade, and education.

Beginning immediately we must make a total commitment to achieve a full employment economy, and then lead the way to a productive partnership among government, management, labor, and other segments of society to bring it about.

We must pledge that never again will we permit our government to combat inflation by pursuing a policy of deliberately slowing down the economy, driving business into bankruptcy, forcing farmers and homeowners into foreclosure, and throwing millions of workers out of their jobs.

We have the human and natural resources, the technical know-how, and the vitality to achieve a full employment economy. All that we lack is strong national leadership to put full employment at the top of our national agenda.

A Quarter Century of Employment and Training Policy: Where Do We Go From Here?

Sar A. Levitan and Garth L. Mangum

Between 1961 and 1980, during three Democratic and two Republican administrations, the federal government became increasingly involved in expanding human resource programs and in opening up opportunities to disadvantaged sectors of the population. Charging that many of these efforts had been counterproductive, or should at least be left to lower levels of government or to the private sector, the Reagan Administration sharply curtailed federal employment and training programs.

It appears that the retrenchments of the past three years have been based more on ideology than on objective evaluation. Federal social programs of all types proliferated during the 1960s and 1970s. Not every program was a success and many have been appropriately abandoned. But a closer examination of federal employment and training programs clearly indicates that each initiative was a response to a real need, often of long standing. The employment and training system that existed in 1980 was on the whole worth preserving and strengthening.

Perspective on Federal Involvement

The federal government has been involved in the development of human resources throughout this nation's history. As early as the enactment of the Northwest Ordinance of 1790, Congress took steps to assure that facilities and resources would be available for the education of children. Later, to provide for the education of young adults, the Morrill Act of 1862 allocated federal lands to each state for agricultural colleges, which expanded into the present-day network of state colleges and universities.

The national government once encouraged the supply of slaves, to provide a low-cost labor force for the plantation economy and, when that became unpalatable, kept the doors of the United States open to encourage voluntary immigration of workers to build railroads and to bolster a newly emerging industrial economy.

Military policy also has played a major role in federal human resources intervention. Periodic wars involved the shifting of large numbers of people from the civilian labor force into uniform or to other defense-related activities. In both cases, training often was an essential ingredient. After World War II, the government assumed a major responsibility for the education, training, and employment of some 14 million discharged veterans through the G.I. Bill of Rights, enacted in 1944. Since then, with a slight interlude right after the war, the United States has kept a military establishment of 2 million persons or more, and has provided active military personnel with education and training ranging from basic proficiency in the three Rs, to Ph.D. programs in nuclear physics and space technology.

Following World War II, the responsibility of the federal government for generating "maximum employment, production and purchasing power" was written into law in the Employment Act of 1946. At the time, however, fulfillment of this responsibility was concerned almost solely with managing the problems caused by the business cycle.

In the 1960s, the federal government began for the first time to assume formally the additional task of helping individuals who faced long-term difficulties competing in the labor market during good years as well as in periods of economic downturn. The goal of the resulting efforts was the achievement of equal employment opportunity and the provision of basic income to all Americans.

Training programs were designed to remove lack of skill as an obstacle to equal access. Compensatory education programs followed to reduce that obstacle to later employment. Work experience programs tried to expose enrollees to labor market operations. And public-sector job creation programs created net additional jobs for the involuntarily idle. Equal opportunity laws, led by Title VII of the Civil Rights Act of 1964, were enacted to ensure that the federal government's authority would fully support the effort to eliminate formal discrimination.

While the primary goal of all these programs always was employment, a secondary goal was the provision of income maintenance. Initially the emphasis was on training, with the hope that once individuals became better equipped, they would be able to fend for themselves. It soon was realized that those who had initially failed in school, or had been failed by it, were subject to other problems in the labor market and would not necessarily participate in or benefit from training. Furthermore, institutional impediments—including discrimination—might still make it difficult for them to obtain sustained work even when trained. The designers of the programs, therefore, turned increasingly toward job creation, often at the expense of training. But the goal remained the same: helping those who were left out of participation in the mainstream of American economic activity. In addition, program designers hoped that upgrading the labor force would eliminate or at least reduce skill shortages and thereby forestall inflationary pressures, while providing for society's occupational needs. Finally, the supply-and-demand matching function of the United States Employment Service, which had been created in 1933, was refocused from its original orientation (which had in practice resulted in screening out many of the unemployed who needed help most) to providing help for unskilled and poorly educated individuals seeking jobs.

Over the period in which it was evolving, this system of employment and training programs came to be seen as an integral part of economic policy. It became the generally accepted view that fiscal and monetary efforts could not be targeted efficiently to the most disadvantaged individuals. As a supplement, employment and training programs could concentrate directly on their needs, and society as a whole would benefit.

Beginning in the mid-1970s, however, when the price tag for these programs was rising from millions to billions, support for them once again became controversial in Congress and in the country at large. Opponents charged the federal government with supporting a proliferation of programs that satisfied only the fertile imaginations of big spenders and bureaucrats rather than the real needs of groups for whom the programs were intended.

With a little hindsight, it has become clearer that employment and training programs have in fact been more effective than they have sometimes appeared in mitigating problems of structural unemployment. There is no disagreement, on the other hand, that the programs proliferated unsystematically, and that their design and administration did require improvements.

Advocates of these efforts point with pride to the growing role of the federal government, lauding the fact that it finally assumed responsibility for an agenda long neglected—namely, opening opportunity for the poor and for those against whom society has discriminated. Detractors charge that many of the programs were ill-conceived and that other initiatives could have been better left to the private sector or to state and local governments. The evidence supports the claims of advocates more than those of detractors.

Development of the Programs

The first step in the federal government's march toward a more active manpower policy was the enactment of the Area Redevelopment Act of 1961 (ARA), designed to attract employment to depressed areas. The ARA investment in training seems miniscule when measured by today's standards. Focused on chronically depressed conditions in the Appalachian coal mines, New England textile towns and other declining localities of the post-war era, the ARA legislation contained provisions for both training and subsistence for program participants. Migration might have offered a solution for some, but it would have meant the waste of considerable social capital already invested in the communities where the unemployed lived. Conceptually at least, there was a clear case for helping these depressed areas and the unemployed workers residing in them.

Because the recovery from the 1960 recession was sluggish and unemployment remained high, there was a tenfold increase in federal spending for training with the Manpower Development and Training Act (MDTA) of 1962, which focused initially on the training needs of experienced workers with an established attachment to the labor force.

In 1963, the attention of Congress turned to youth. The initial cohort of the post-war baby boom had reached age 16 and were entering the labor force. The response was an expansion of federal support for vocational education, a system that dated back to 1917.

The succeeding year, 1964, was a bumper year for employment and training legislation. The mood of the country had changed and President Lyndon Johnson was pushing the War on Poverty. Before we got heavily embroiled in Vietnam, economists were predicting that federal budgetary surpluses would place a drag on the economy. What better way to spend the federal surpluses than to help build a greater society? Legislation establishing the Job Corps, a residential youth job training program, was passed together with a Neighborhood Youth Corps work experience program. Other provisions of the antipoverty Economic Opportunity Act authorized work experience to help needy adults, including public assistance recipients, to become economically independent. Also, adopting the notion that it is the wearer, not the cobbler, who knows where the shoe pinches, the legislation favored "maximum feasible participation of the poor" in economic opportunity policymaking. The institutional result was the emergence of community action agencies and community-based organizations as administrative agencies and advocates for the training and employing of poor and minority groups.

Attempts to offer economic opportunity to the poor in many cases also required major efforts to combat racial and sexual discrimination. As long as blacks and members of other minorities were kept out of jobs, there was no point in providing them with any training. Employment and training programs, therefore, went hand-in-hand with the battle for civil rights.

It should be noted that it was also during this period that immigration laws were liberalized. This was to result in a vast influx of migrants eager to work, and this in turn would increase competition for low-wage jobs.

Meanwhile, the unemployment rate remained stuck between 5 and 6 percent throughout 1963 and the first half of 1964. Economic textbooks had preached for nearly a generation that a tax cut—without an offsetting cut in government expenditures—could help cure unemployment by stimulating demand for the purchase of goods and services. But no one deliberately had tried the policy. In the spring of 1964 it was tried and it worked. Federal personal and corporate income taxes were cut by approximately $14 billion, while expenditures continued on a moderate upward path. Unemployment declined to 5 percent by the end of the year and then, reinforced by a $5 billion excise tax cut, continued on down to 4.5 percent by the summer of 1965, when the Vietnam involvement took over as the engine for job creation.

In 1965, programmatic attention shifted to education. The Elementary and Secondary Education Act of that year was designed to boost federal support for school districts with concentrations of poor and for those with low tax bases which could not provide adequate resources for the support of public schools. Provisions for adult basic education were also added to the antipoverty program to reduce illiteracy as an obstacle to employment.

The rising tide of sympathy for those facing various disadvantages in labor market competition spilled over to the physically and mentally handicapped as well. Millions of persons are kept out of effective participation in the labor force because of physical or mental handicaps. The federal government had made some provision for disabled persons since 1920. Legislation in 1965 vastly expanded the federal contribution for vocational rehabilitation.

In 1966, Congress experimented with small-scale public jobs programs, the first since the Great Depression for adults not on welfare. New Careers and Operation Mainstream were examples. The former experimented with the use of the poor and undereducated as paraprofessionals, and the latter employed older rural residents in conservation activities. The first failed in part because the training involved a long-term commitment and in part because professionals were protective of their jobs and reluctant to see their tasks subdivided. The second limped along at a low level until it mushroomed into a multibillion dollar program eleven years later.

In 1967, attention turned to welfare recipients. Despite strong national economic performance throughout the 1960s, the rolls of the Aid to Families with Dependent Children (AFDC) program continued to grow. During the six or seven years following the beginning of the recovery in 1961, enrollment had almost doubled. The cry was raised that if the increase in welfare recipients continued at a geometric rate, as had been occurring, we would all be driven into the poorhouse. Congress responded with another employment and training program: the Work Incentive Program, called WIN for short (since the acronym WIP sounded a bit too coercive). Work experience and supportive services were supposed to enable welfare recipients to secure jobs that would make them economically independent and—as some members of Congress hoped—"get 'em off our backs."

Despite the expansion of employment and training efforts and related programs, unemployment in many inner cities remained a serious problem. Riots broke out in dozens of American cities, from Watts to Newark and the nation's capital. The Labor Department developed the idea of saturating a few of the most deprived census tracts in the United States with sufficient jobs. The result was the Concentrated Employment Program of 1967, a program which put antipoverty and training funds in the hands of mayors to focus their attention on the employment problems of their poorest neighborhoods.

Another change in emphasis took place in 1968. Until then, the Great Society's employment and training initiatives had been designed and planned largely as strictly public endeavors; but, in reaction to the rising social unrest, corporate executives and other individuals in the private sector began to pay increasing attention to the conditions of the inner city. President Johnson tried to take advantage of this changed attitude by getting employers to accept direct responsibility for combating discrimination and poverty. To help achieve this goal, he created the National Alliance of Businessmen (the "men" was later dropped).

The political pressure to do something about the lot of poor persons, however, had already peaked, as many of the antipoverty warriors realized that their dreams of an easy victory over poverty and discrimination were unrealizable.

The Nixon Era Begins

The Nixon Administration came to power with only one positive commitment in the employment and training field: to consolidate, decentralize, and decategorize the federal manpower programs. Congress was prepared to accept that approach only if it was accompanied by a substantial public-sector job creation program. The administration, however, was strongly opposed to the notion of what it considered "make work" jobs.

Gradually, political pressures from unemployed Vietnam veterans and, probably, the prospect of another election, changed that stance. In the summer of 1971, the President signed the Emergency Employment Act which authorized a public employment program (PEP). An appropriation of $2.25 billion was made available to state and local governments to expand their payrolls by hiring some 150,000 unemployed persons, using them to supplement regular public service.

The assent was a grudging one and, following a landslide election victory in 1972, the administration came back with a new commitment to dismantle the Great Society. Watergate intervened, however, and during the period of administrative disarray, the Labor Department negotiated directly with the Congress to achieve a compromise between locally-managed but federally-funded training and public-sector job creation that became the Comprehensive Employment and Training Act (CETA) in December 1973. Title I of this act defined a menu of employment and training services among which local governments with populations of 100,000 or more could choose to receive federal funds for serving the unemployed poor. Another provision of the act authorized a public service employment program, to be triggered when the local unemployment rate rose above a specified level. Other titles provided for national programs beyond the scope of state and local governments. *After years of debate, CETA established a mechanism to tailor employment and training programs to local needs.*

Unfortunately, however, CETA arrived simultaneously with the beginnings of a deep recession triggered by the OPEC oil embargo and the quadrupling of crude oil prices. The new employment and training system was overwhelmed by unemployment just as it was getting initial staff in place and procedures formulated.

With unemployment at 9 percent in the spring of 1975, Congress responded by expanding the public-service employment program as well as the unemployment insurance system. Coverage under the latter program was augmented, and benefit eligibility was extended to 65 weeks. Income maintenance, rather than employment opportunities, became the major anti-recession tool.

Complementing the employment and training legislation, Congress also acted to strengthen the equal employment opportunities drive, which seemed at that point to be floundering. Aggrieved persons had to take direct personal initiative to gain the protection of the Civil Rights Act, and relatively few could afford to do so. Amendments to Title VII in 1972 authorized the Equal Employment Opportunity Commission to take the initiative to protect workers who were discriminated against in the labor market.

New Carter Initiatives

In 1977 the administrative reins returned to the Democrats. After eight years out of the White House, they were looking for new initiatives to demonstrate their social concerns. In the employment and training arena they fastened onto two overlapping issues: youth unemployment and public sector job creation. The Youth Employment & Demonstration Projects Act of 1977 (YEDPA) and the expansion of public service jobs were the result.

On the surface it would appear that 1977 was a strange year to introduce a new youth employment effort. The number of teenagers was beginning to decline because of the steady drop in births which had begun in the early 1960s. The ratio of youth to adult unemployment had fallen, from the 4.5 to 1 of the Vietnam era, back to the 3 to 1 ratio of the mid-1960s. Nevertheless, unemployment rates for young people as a group had crept steadily upwards, and research had shown that unemployment while young had a permanent negative effect on later employment and earnings. Also, the population declines were much more pronounced among white youth than among blacks, Hispanics, and other minorities. Teenagers and young adults in many major cities were suffering from the long-term and apparently chronic deterioration of those cities' economies, from family breakdown and from discrimination. Youth unemployment in these areas especially had become an increasingly critical problem. Only one in five black teenagers was employed, compared to one of every two whites of the same age. YEDPA was a combination of traditional work experience and skill training programs with experimental research and development efforts.

In 1977, CETA public service employment authorizations were increased to provide for 750,000 job slots, expanding to that level from 300,000 in nine months. The pressure to fill these slots resulted in isolated, though highly publicized, cases of careless management and ineligible enrollment that were to haunt CETA for the rest of its limited life.

An additional innovation introduced during the period was the Targeted Jobs Tax Credit (TJTC). Rather than relying on the good will of employers, the government reduces the cost of employing an individual in a targeted group by giving the employer a substantial tax credit, thus effectively reducing the costs of hiring targeted workers.

The last major development in the Carter Administration's employment and training program was the 1978 revision of CETA. The amendments restricted the discretion originally granted the states and local governments, confined eligibility for public service employment to the economically disadvantaged, and made specific provisions to involve private sector representatives in the planning and implementation of CETA.

The Reagan Program

The Reagan Administration made a concerted effort to cut employment and training appropriations sharply, along with most other social welfare programs targeted to the poor and disadvantaged. However, while Congress was compliant on other issues, it was not ready to give up on training programs. Taking the initiative, a bipartisan group in the Senate prevailed upon the administration to replace CETA with a less costly effort and less centralized program.

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The result was the Job Training Partnership Act of 1982 (JTPA), emphasizing training. At the insistence of the Reagan Administration, JTPA provisions were designed to deny participants any stipends while they undergo training, leading a wag to observe that the Reagan Administration believed in "let 'em eat training." The Act leaves some room for youth work experience under carefully restricted circumstances, but completely eliminates public service employment. In response to the deep recession which had begun in 1980, Congress did win approval of a provision for displaced worker programs, but states were required to match federal funding based on a formula related to their unemployment rates. Under JTPA, private employers are to replace local elected officials in determining training services. The federal Employment and Training Administration has sought to transfer its oversight functions to the states, which have not been enthusiastic about the new assignment; local discretion has expanded, but there are fewer funds to dispense. JTPA has been in existence for too brief a period for evaluation but the changes have been substantial—lowered funding, the absence of stipends, and the elimination of public service employment. What this portends in relation to who is served and how well remains to be seen.

Welfare reforms pushed by Presidents Nixon and Carter, albeit not always enthusiastically, have been abandoned under President Reagan, including the subsidization of the working poor. The Reagan Administration objective is that recipients be either totally independent or totally on AFDC, never both. Those who apply for AFDC, if not explicitly excused because of their number of preschool children, are to work for their benefits in a program component known as workfare. Congress has been willing to allow, but not to endorse, that approach, and most states have shown little enthusiasm for implementing workfare programs, finding difficulties in developing meaningful work projects without considerable added costs.

How Well Have We Done?

After more than 20 years of employment and training programs, none of the problems to which they have been addressed have gone away. The trend in unemployment was downward from 1961 to 1969, but has crept persistently upward since that time. Poverty continued to decline until 1978 but has risen during subsequent years, even when in-kind assistance is included in the estimate.

The numbers enrolled in employment and training programs were always too low, compared to the numbers afflicted by unemployment and poverty, to have offset demographic trends, worldwide inflation, energy crises, international competition, and domestic macroeconomic forces. The basic economic premise of both education and training programs, aside from their intrinsic value to the individuals concerned, is that investing in the development of improved resources will result in a net economic benefit to society, independent of the effects of larger economic forces.

The only meaningful way to assess whether there has been this sort of net benefit is to look at 1) what happened to the people who went through the programs in relation to their ability to earn; and 2) how these improved earnings compared with the costs of the public services provided.

By these tests, *most, but not all, of the employment and training programs appear to have been reasonable public investments*. These programs have been subjected to frequent evaluations over the years and the results have been remarkably consistent. By and large, the programs were designed to serve members of families with below-poverty incomes whose labor market experience was characterized by sporadic employment and low pay. The average participant had a pre-entry income well below the poverty level. Since elevation beyond poverty for an urban family of four in 1984 required the equivalent of one full-time, full-year job at $5.00 per hour, or one-and-one-half the federal minimum wage, getting the average to that level was a substantial challenge. That some were lifted out of poverty at all is a commendable achievement of the training efforts.

A comprehensive review of evaluation data, conducted by Robert Taggart, and published in 1981, provides a number of important conclusions. For example, data generated by the evaluation efforts suggest that *program participants who were given classroom training had income increases 10 percent greater than those received by control groups during the same period*. Making reasonably conservative judgments about the durability of that differential, the most comprehensive study of the impact of the program estimated that each dollar spent on institutional training resulted in a $1.14 increase in annual income per participant. The results were not better in part because the jobs for which most were trained were predominantly low wage, high turnover occupations for which training could be provided in a limited length of time at low per capita cost.

Longer-term training for occupations requiring greater skill might have increased the payoff substantially. This is indicated by the fact that *those classroom trainees who were enrolled more than 40 weeks had more than six times the earnings gains of the trainees who were enrolled for only 11 to 20 weeks*. The resources available to training administrators invariably have been too limited to permit the luxury of longer enrollment to all but a small proportion of participants in longer training programs.

On-the-job training with private employers, with the program paying one-half the wage for a limited period of time, resulted in a 16 percent greater increase in income for enrollees than for the comparison groups. When the enrollee is working and producing while earning and learning, the return to society includes the training period output of the worker as well as the post-training income gain. If the output was worth one-half the wage—that is, if the employers were, on the average, breaking even—the benefit-cost ratio would have been 2.3 to 1. The primary problem of the on-the-job training programs appears to have been persuading employers to participate. When they did, they tended to be selective, and particularly reluctant to employ youth, who were only 2 percent of on-the-job trainees under CETA as a result.

Participants in public service employment programs, on average, experienced 7 percent greater post-enrollment earnings than those in control groups. The benefit-cost ratio again depends on valuation of the output of the average workers and there are no good measures of this available. Work experience enrollees, on the other hand—mostly youth doing rudimentary work—actually had on average lower post-enrollment earnings than their comparison groups. Yet carefully run individual programs combining work experience under effective supervision with basic education had an excellent record. A whole range of experimental school-to-work transition programs had positive and cost-effective results as long as they were run by competent and dedicated managers. But more than just capable leadership is required. The Supported Work Program, one of the more recent demonstration projects with a generous budget and exceedingly strong staff and research arm, did have a favorable benefit-cost relationship for a more stable group of AFDC recipients, but not for some other groups.

The Job Corps, which provides skill training in residential settings, has an outstanding record, returning an estimated $1.39 on the dollar, with young people from the most disadvantaged backgrounds. After experiencing difficulties in its early years, the program is now run, under close supervision of federal officials, by contractors who are under considerable pressure to maintain productivity and minimize cost in order to retain the assignment.

Participants in employment and training programs benefit from a variety of services, the importance of which cannot be separately measured by post-training income. Particularly encouraging is the record achieved in providing basic education. Typically, 90 hours of adult instruction results in a 1.5 year achievement gain in reading ability and 1 year in math. Computer-assisted instruction, pioneered by Job Corps centers, produces gain rates twice as high. The English as a Second Language (ESL) program also has had especially high payoffs. People with substantial job skills which they are unable to apply because of language deficiencies are freed from that bondage in a short, low-cost ESL program. Job search training has demonstrated the ability to increase by 50 percent or more the job finding rates of enrollees.

The impact of the Targeted Jobs Tax Credit is difficult to evaluate. Since employers normally hire some workers from the targeted group in any case, it is difficult to determine whether TJTC results in a windfall to employers or added hiring. The U.S. Treasury has estimated that the gross revenue loss due to TJTC will amount to over $400 million during fiscal 1984.

Measuring the impact of equal employment opportunity efforts has proven to be equally problematic. No controlled experiment to measure the EEO impact is possible. The influx of women into the labor market was almost certain to depress the wages they were offered, especially since they crowded into the traditional occupations. The gap between black and white educational attainment (not necessarily educational achievement) has narrowed, but the high unemployment of the past 10 years may have prevented its having an impact on earnings. The gap between black and white unemployment has been widened, and the earnings gaps between blacks and whites and between men and women have been remarkably resistant to change. Women and blacks have found some places in middle management, but only token representation in top management. There is no doubt that the existence and enforcement of equal employment opportunity requirements has made a substantial impact upon the internal personnel practices of U.S. employers. Turning those changes in practice into changing statistical measures will require years of persistent and vigorous enforcement.

Residual and Emerging Problems

Turning to the future, what problems can we expect to disappear, which to remain or intensify, and what new income and employment related problems are likely to surface? With outmigration from both depressed rural areas and central cities, and the effects of the decline in birth rates which occurred during the 1960s and 1970s, the youth employment problem remains a serious challenge, but one unlikely to grow in size or intensity. The problem of teaching young people about work merits attention but does not threaten any new crisis.

The feminization of poverty, on the other hand, is a growing problem. The number of female-headed families increased from 5.4 million in 1967 to 9.5 million 15 years later, while the number of those living in poverty increased to 3.4 million. Almost the entire growth in poverty during the late 1970s and early 1980s, occurring after a decline during the preceding two decades, can be accounted for by the rise in female-headed households. Bureau of Labor Statistics projections indicate that two thirds of the net labor-force additions during the 1980s and 1990s will be due to women's participation; this does not leave one feeling sanguine about any decline in this problem.

Poverty is likely to remain a continuing and growing challenge. Even if the decline in family formation and stability, which has been the basic cause of the feminization of poverty, has run its course, reducing the impoverishment of one in every eight families headed by a woman will depend upon a combination of increasing employability, development of wage structure reforms, and more generous income maintenance programs that combine work with welfare.

The creeping rise in average unemployment which the nation has experienced during the past 15 years also is a cause for concern. Early self-congratulation related to unemployment's decline from the most recent recession is premature. The employment response to the $200 federal budget deficit proves that Keynesian demand management is not dead. But more than one year into an impressive recovery, joblessness still exceeded its value in the trough of any other recession year except 1975, and other major inadequacies in the labor market persist. The number of workers seeking full-time jobs, but working only part-time, remains at record levels except for 1982, and long-term unemployment and labor force withdrawal are still at disturbingly high levels. Nothing on the horizon promises to ameliorate minority youth unemployment problems, but that incidence can fluctuate widely without substantial impact on the overall rate or number of unemployed. At some point, the persistent rise in women's labor force participation must slow but the end is not yet in sight. More likely is an increased stability of women within the labor force with less transitional unemployment consequent to entering and leaving.

Lowering the average level of unemployment will depend on how well we are able to deal with structural problems. Some industries, such as autos, have permanently shrunk in employment size, and reabsorption of those workers displaced remains a challenge even though the industry itself can find restored health at a leaner level. Steel, coal, textiles, and a number of other industries may not yet have reached bottom in employment, as an excess of labor remains attached to these industries. These troubled industries and those whose difficulties are in the future will be saved only by organizational, technological, and market changes which are likely to keep displacement high for the foreseeable future. Public policy hardly has begun to address that problem.

Unless productivity resumes a sustained upward climb, the overall earnings of the American work force may deteriorate. Increased foreign and domestic competition will keep intense pressure on wage rates. Employer resistance to wage increases may improve American producers' positions in foreign markets and help stabilize prices at home, but it may contribute to deterioration of wages in unionized, capital-intensive, high-wage industries that will be offset only partially by growth in lower-paying service activities and "high tech" industries.

Stemming imports alone will not end our international trade problems. Low wage rates in developing countries with surplus populations not only give their industries an edge in international competition, but act as a magnet, drawing labor-intensive firms from high-wage labor markets. The higher wages in the latter countries also provide pressures for international migration of labor. There appear to be no reasons for expecting a slowing of these two trends which will continue to provide incentives to American firms either to move facilities to low-wage countries or to import components and finished products from those countries. Aggressive wage seekers will continue to try to subvert every attempt of the United States to control its borders. U.S. employers will continue to prefer motivated and docile immigrants for labor-intensive production. Closing the nation's borders runs against American tradition, and even if Congress enacts laws restricting immigration, it does not follow that the new laws will be enforced or enforceable.

Less protection from domestic regulation, the restoration of international competition to reduce imports and open third world markets, and the renewed drive for innovativeness and productivity within the U.S. economy should provide continued impetus for technological change. The information technology components of that change should also shorten the invention-innovation-implementation cycle, speeding the pace at which technological developments spread throughout the economy. Progress in computerization, both technically and in terms of innovation costs, increasingly threatens occupations that historically have been shielded from displacement. Hence, displacement—always at work in U.S. labor markets—should continue its upward climb. As noted, *these adverse developments might be reversed if the growth of productivity is resumed and if public policy generates demand for jobs in public service and in rejuvenating the deteriorating American infrastructure*. Massive job creation programs would require major public outlays and will have to await a reduction in the troublesome federal deficits that are the legacy of Reaganomics.

A Program for the Rest of the Decade

Even though at least some of the employment and training policies of the past generation have been moderately successful, *fiscal constraints preclude sharp increases in the immediate years ahead*. But a revival of the pre-Reagan policies is necessary to meet current needs. We now know a great deal about what does and does not work and even how to make moderately successful programs substantially successful. The issues and problems are always changing but not so rapidly as to make past experience irrelevant.

Overall unemployment is not likely to be reduced to the levels envisioned by the Humphrey-Hawkins Full Employment and Balanced Growth Act, at least not in the immediate future. However, realistically we can hope to achieve the more modest levels experienced during the first half of the past decade prior to the 1974 recession.

Steps should be taken to achieve the following ends:

- The school-work transition should be a focus of attention, with an emphasis on minority youth in central cities.
- Top priority should be placed on substantially reducing the poverty of female-headed families.
- The employment and income opportunities of women and minorities should be enhanced.
- Adjustment mechanisms should be available to help displaced workers.
- A coherent policy should be developed in regard to labor importation, with a program to implement it.

The challenge to employment and training in the U.S. is to identify and implement the lessons learned from the expensive but generally productive experience of the past generation. To achieve the desired results it is essential that we restore faith in the positive role that government can play to improve the common welfare and to provide sustained support for those efforts. Any set of policies or programs to meet labor market needs must still involve a combination of: creating adequate employment opportunities; preparing people with the attributes of employability; seeing that essential skills are acquired; facilitating the processes by which job seekers and potential employers find each other; providing the extra assistance the handicapped and the disadvantaged need to compete successfully in the job market; and cushioning the shocks and providing the adjustment mechanisms needed by those displaced by job market change despite their own best efforts.

An agenda for the balance of the 1980s should address these continuing and emerging issues.

Public Jobs

Macroeconomic policy always will be the first line of defense against unemployment, but that is not the subject of this paper. Joblessness will continue to have excessively severe impacts on selected places and groups. Despite its tarnished image, public service employment was effective during the 1970s in providing useful employment and aiding the transition to unsubsidized employment. The problem of the public service slots President Carter added was not that too many jobs were created but that the program was implemented too quickly, without sufficient federal planning and monitoring. Since 450,000 new slots were created in less than a year, there is no reason to think a larger number could not have been filled with greater deliberation and without abuse if adequate time had been allocated to developing the program.

The 1978 CETA amendments called for a permanent job creation program for the disadvantaged plus a triggered countercyclical program to absorb 20 percent of unemployment in excess of 4 percent, and 25 percent in excess of 7 percent. That provision never was implemented. By the time the 1978 CETA amendments reached the appropriations committees, disillusionment had set in and subsidized public employment was curtailed sharply. However, the principle is still sound, though as a practical matter it would be necessary to trigger the program at a level of unemployment higher than 4 percent until the economy adjusts to the changing industrial structure and the demographic shifts in the labor force. Once these adjustments are achieved, we can hope to return to the Humphrey-Hawkins goals.

Improving Employability

Employability development needs to be focused at two levels. Practically everyone will be a member of the labor force at some time during her or his life. Most local school districts seem to consider it their obligation to teach every youth to drive an automobile, but few seem to consider it their obligation to teach the same youth how to get and keep a job. High schools should teach their students to understand work-related values, attitudes, and interpersonal skills, and should convey knowledge about the structure and dynamics of labor markets, as well as how and where to search for jobs. Above all, general education is at least as essential a requirement to employers as are occupational skills—how to do a specific job. About one-third of the jobs in the U.S. economy require no specialized training; another third are learned by more or less formal on-the-job training; and only the remaining third require formal pre-entry training of any kind, from high school vocational courses to postgraduate degrees. The federal government cannot require the local schools to provide such educational components, no more than it can mandate driver education. However, it could provide sample curricula and promote their use.

Most youth achieve a moderate level of employability by following the example of family and informal role models, as well as from the discipline of the schoolroom and from early work experiences. Those who do not have these advantages or who face some restricting handicap need assistance to increase their competitiveness. Employment-related programs at the high school level intended to prevent dropouts or to induce school attendance, along with programs for the out-of-school, out-of-work disadvantaged, have all proven their effectiveness. The provision of education in a setting that makes clear its relevance to job success and income is the key.

Training programs have paid off most effectively for people in the 30- to 40-year age group; they are old enough to have become strongly attached to the labor market, yet still young enough to have many working years left during which to use skills acquired. Yet, leaving young adults to flounder until reaching this age risks the strong possibility that many will never attain successful and sustained experience in the labor market. The lessons of the youth programs—largely gleaned from the experience of the high-cost Job Corps—suggest the advantages of a multi-tiered program in which large numbers of youth initially receive low-cost but useful training, especially of a basic education and basic employability nature. Those who show commitment then move upward into more advanced, occupation-specific and more expensive training programs. Despite their blemished reputation, youth work experience programs, including summer programs, can serve as excellent first-tier vehicles if properly conducted. The income provides holding power while well-supervised productive work teaches discipline, basic education, and enhances employability. Those who apply themselves then can be admitted to subsequent advanced components.

Occupational skill training in such a multi-tiered program would relate only to those skills best learned in a classroom. On-the-job training must be a part of the program, with incentives strong enough to persuade employers to offer poor youth and unskilled adults an opportunity. Raising the subsidy level (whether through wage supplements or tax credits), protecting the employer from implied long-term commitments until the individual is tried and proven, providing skilled job coaches until a match among enrollee, supervisor, and peer employees has been achieved, and coupling on-the-job training with supportive classroom training have all proven effective in specific cases.

Closer to the mainstream, but in the same vein, secondary vocational education for most youth should be viewed as exploration of labor market opportunities rather than as occupational preparation, because so few pursue or find employment in the occupations for which schools are able to train them. Preparation for a specific occupation for most should await some seasoning through experience and should occur mostly after secondary school.

Meeting Special Skill Requirements

A shortage of people with specific skills has been a rare phenomenon in U.S. labor markets. The general level of education, adaptability, and mobility of the work force seem to get about the right numbers of people with about the right skills into place without excessive delay. However, shortages do occur from time to time in occupations undergoing rapid growth and requiring extensive training. Some health care, engineering, technical, and highly skilled mechanical occupations have suffered skill shortages from time to time. Informational forecasts can be helpful in channelling individual choice. Some directive power can be exercised through selective provision of scholarship grants.

Labor Market Services

The public employment service has been important to some segments of the work force and the employer community, even though most jobs are found through informal contact with employed and influential friends and relatives. People who lack such contacts need more formal help. In fact, all job seekers would do better if they had mastered job search proficiency—knew where to look, how to get an employment interview, and how to impress the interviewer. These are fundamental skills which can and should be taught in school and in training programs. For the population not enrolled in either, the public employment service should offer such training followed by supervised but self-directed job search.

Adjustment Assistance for Displaced Workers

Changes in the economy have always been accompanied by some worker displacement and there is ample reason to anticipate that in the future we will have periods of greater than normal adjustment needs. JTPA's displaced worker program recognizes such needs but lacks either the resources or the mechanisms to satisfy it. Displacement currently is a widespread phenomenon and many of the affected workers are in interstate and international firms. The funding should be federal. However, those subject to displacement must be identified and served by their local communities—either where they formerly worked, or where they go to find new work.

The first step should be an examination of existing policies and institutions to ensure that they do not impede adjustment. For instance, as it is now structured, the unemployment compensation system encourages laid-off workers to exhaust eligibility before facing the fact that recall is unlikely. In most states, the unemployment compensation rules even deny benefits to a person undertaking training during the period of forced idleness if the training does not lead directly to an existing job. The unemployment insurance system should be modified to require an early review of the recall probabilities and help design and implement a personalized readjustment program.

Incentives should also be offered to employers to give advance notice of plant shutdown or major layoff and to cooperate with local public planners to ease the transition. A total package of labor market services, including financial and personal assistance for relocation as well as retraining, in the classroom or on the job, is required to deal effectively with the problems of displaced workers.

Poverty in Female-headed Families

Single parents with limited skills and education who head families are a special case. Child care responsibilities restrict work opportunities, and employment and training programs alone are not sufficient to help these families significantly. A training program could succeed only by providing child care and by paying allowances sufficient to support basic family income requirements.

To be practical, *some combination of employment and income maintenance payments is necessary in this case*. We should recognize that given our wage structure, *work and welfare must go together* for significant sectors of our labor force, particularly for single individuals (mostly women) who head families. The welfare system has moved in that direction since 1967 when Congress allowed family heads on welfare to keep part of their earnings without losing their public assistance payments. Any program aimed at helping low-skill single parents must allow employment to be supplemented by income support, which could be reduced gradually as earned income rises. Regrettably, the Reagan Administration has abandoned this constructive and promising policy. The restoration of significant financial work incentives for welfare recipients is essential to encourage self-sufficiency on the part of the poor who are able to work but cannot earn enough to lift themselves and their dependents out of poverty.

Labor Market Regulation

The new labor market regulations of the 1970s—dealing with equal employment opportunity, affirmative action, occupational safety and health, and pensions—all make essential contributions to maintaining a decent, fair and humane labor market. There is room, however, to move in the direction of cost reduction and voluntary compliance, as long as ignoring or evading the law is always more expensive than complying with it. Employers must have the opportunity to meet public policy goals in ways that minimize their costs, without allowing them the opportunity to ignore the ultimate sanctions for lack of good faith.

A critical element in controlling unemployment now depends upon the control of our borders. It is painful for the possessors of the Statue of Liberty to restrict free entry to those "huddled masses." Yet our absorption capacity is far more limited than it was a century ago. Some combination of sanctions on employers, amnesty for long-term residents, and government-to-government treaties for controlled entry should be adopted.

Delivering Employment and Training Services

The Job Training Partnership Act essentially is a curtailed CETA program. Among the lessons learned from over two decades of employment and training programs is that a vast gap exists between legislative good intentions and the delivery of effective services. After much painful trial and error, the CETA approach that depended upon the authority of state and local elected officials and private-sector cooperation, but with significant federal monitoring, finally became reasonably effective in most places and outstanding in a few. While an assessment of JTPA requires the test of time, the initial outlook is far from promising.

JTPA places great store on decentralization of the system to the state level and strong reliance upon the private sector, minimizing, if not abandoning, the federal involvement and responsibility, except for the provision of funds. Few states have as yet demonstrated either interest in or capability of supervising the process. Too many loopholes in the language of the law allow the states to increase the number of agencies that deliver the training and related services to enrollees. Fortunately, the most effective recipients of CETA funds were able to make the transition and continue to function with moderate restructuring under JTPA, although under more difficult circumstances. Most labor markets are local and that is where the detailed decisions implementing national policies must be taken. Most of the labor market programs that transcend local responsibilities should be brought gradually under the umbrella of the JTPA planning system.

A promising grass roots development has emerged in the technical-assistance grant to counteract the inherent weakness of JTPA. The administrative staffs of leading state and local employment and training programs have taken initial steps to join together with public interest groups and community-based organizations into a National Job Training Partnership. Public funding should be provided and the technical assistance function should be turned over to leading practitioners, to share experiences and assist those of lesser capability.

Other concerns raised by the new program relate to its excessive reliance upon employer participation, a feature that apparently was driven by ideology, and the denial of income support to enrollees. Employers have been less than enthusiastic about their potential power over such programs. They have businesses to run and their ambitions for involvement traditionally have been limited. When they do play an active role, they naturally tend to select the most qualified of the eligible population for training, thereby frequently excluding those in greatest need.

The lack of stipends to enrollees may exclude entirely from the program those who need JTPA's services most.

The system, however, has been in effect only since October 1983, and it is premature to make any definite assessment of the impact of this new program.

What About Costs?

Even if the outlined proposals appear sound, the issue of whether they are affordable in light of the federal deficit is a matter of legitimate concern. To place the proposed expenditures in perspective, total federal outlays on all employment and training programs cost $10.8 billion in 1979. By 1983, that figure was down to $5.3 billion, with $6.2 billion projected for 1984 and $6.2 billion for 1985 (Table 1). The costs of our proposals must be considered against this background.

Given the pressures for restricting government expenditures, and assuming (or hoping for) continued economic expansion throughout 1985, serving one million individuals each year seems to us an adequate goal. The number trained under CETA was only 600,000 in fiscal 1981, but in addition one million AFDC recipients received services under the Work Incentive program, including on-the-job but not classroom training, at a cost of $250 million. However, lengthening the duration of training is more important than increasing the number of slots. If the average duration were to increased from the present 23 weeks to 30 weeks, another $500 million would be needed to hold the number served at the proposed level.

The 1981 CETA appropriations act mandated training allowances, set at the level of the minimum wage, and perhaps gave some enrollees the wrong incentives. A selective and more prudent use of stipends would have left added funds for training. JTPA has moved to the other extreme. By abolishing all allowances it probably has ruled out many of those who most need help from participation. We advocate an allowance based on family income, amounting to an approximately 20 percent increase in recommended funding for training programs.

Table 1:
Proposed Employment and Training Budget, Fiscal 1985
(Millions)

	Administration Budget	Recommended Addition
Grants to states to serve disadvantaged workers	$1,886	$1,114
Summer youth jobs	725	--
Job Corps	600	--
Older workers	317	--
Migrants, refugees and native Americans	258	--
Employment service	939	140
Labor market regulations and statistics	1,233	123
Displaced workers	223	--
Youth work experience	--	750
Countercyclical public job creation	--	1,500
Total	**$6,181**	**$3,627**

The administration is threatening to seek rescission of some of the funds in its own recommended budget for summer youth programs. Since the number expected to be enrolled in the summer of 1984 exceeds the enrollment of 1981, and minority youth unemployment has not appreciably yet responded to the improved labor markets, there is no justification for the rescission.

The Job Corps recommendation is to fund 40,000 full-year slots, which would probably serve 75,000 first time participants. That level should be adequate for a time of stringency. At the other end of the age spectrum, programs for older workers should be examined for expansion as the population grows older, but until more is known about the results of present programs they could well remain at present levels.

If the public employment service is to undertake the task of providing job search training, that will require boosting the appropriation by about 15 percent along with greater flexibility in the use of funds.

The $223 million for displaced workers also seems inadequate. Although economic conditions are improving, powerful forces creating displacement persist. However, past experience has proven that too rapid acceleration in funding of untested programs results in administrative indigestion, if not waste. Hence, the $223 million requested for 1985 seems appropriate, with expansion beyond that level in subsequent years dependent on experience.

The recommended administration outlays of $6.2 billion preclude the expenditure of funds for public sector job creation, except for the summer youth program. Carefully structured work experience, coupled with remedial education, is of proven efficacy for youth and is a useful alternative to income maintenance. A program providing 100,000 job slots offering work experience combined with remedial education for out-of-school youth is needed primarily in central cities and should be reintroduced at an annual cost of approximately $750 million.

Until the structural federal deficit is sharply reduced, public sector job creation should be limited to recessions, say, when unemployment rises to 7 percent or higher for three consecutive months—and then it should be focused on areas with unemployment considerably above the national average. A countercyclically-triggered public-sector job creation program with a ceiling set at an annual rate of $5 billion would be a relatively modest effort and even that amount would be offset partially by savings in unemployment and welfare benefits. In recent years state unemployment insurance outlays alone ranged from $8 billion at the peak of the business cycle to over $22 billion at the depth of the latest recession. The average annual costs of the recommended job creation program during the course of the business cycle would be about $1.5 billion, depending upon the rate of unemployment and the duration of the recession.

All of these proposals add up to nearly half again as much as the 1985 administration proposals, but are still below the Carter peak, despite the inroads of inflation. The outlays for employment and training differ from the most rapidly expanding components of federal spending—income maintenance, defense, and interest—in that they are human capital investments with demonstrated returns. The short-run budgeting costs are significant, however. They are recommended despite concern over the federal deficit because failure to invest now will prove more costly in the long run.

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Reducing Youth Unemployment: The Case for a Fresh Approach

Stanley S. Litow and Susan Amlung

As the recession of the early 1980s lifts and unemployment rates nationwide begin to decline, increasing attention is focusing on one segment of the population whose chronic joblessness seems to resist economic upturns—young people ages 16 to 21, especially poor, minority youths with few basic skills and even less work experience. As these young people face repeated failure in the marketplace, they become increasingly disillusioned and alienated. Eventually, many constitute a hardcore unemployed adult "underclass" that strains the limits of our nation's financial and social service resources and our criminal justice systems.

These are the youths traditional job training has failed to reach. Instead of diminishing, the adolescent and young adult jobless rate has continued to increase. Youth unemployment in New York City has more than tripled over the past decade, and the rest of the nation is beginning to close in on the city's considerable lead in this devastating statistical race.

The dramatic increase in youth unemployment is often ascribed to the structural changes in the nation's economy: the decline of manufacturing, and the accompanying loss of unskilled and semi-skilled jobs, which have resulted in a poor match between available jobs and most young people's skill levels.

However, for a significant segment of our population even low-skilled jobs effectively have ceased to be a practical answer, because this group of young people lacks the basic capacities needed to obtain and keep almost *any* job. These capacities include literacy, knowledge of workplace expectations, and other basic job skills. For the most part, job training programs have failed to deal with these problems.

Yet the human costs of this failure are immeasurable—deprivation and despair, family disintegration, addiction and crime. These alone would be reason enough to warrant a concerted effort to find more effective solutions. In addition, there are the hard financial and economic costs of unemployment—costs borne by all taxpayers and by the society as a whole.

This paper focuses on costs of and some solutions to the problem of youth unemployment primarily as it exists in one community, New York City. For the most part both the problem and its possible solutions are most clearly understood on the local level. New York City provides an illustration of the extent of the problem and the possibilities for achieving solutions.

Costs of Youth Unemployment

The cost of youth unemployment most heavily borne by society is economic—the goods and services which an individual could produce or purchase, but does not produce and is not able to purchase.

Another direct cost to society is loss of the tax revenue that would be generated if these young people were working. For every 1,000 20-year-olds put to work, New York City would gain about $165,000 in income and sales taxes

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Portions of this article were drawn from a paper initially prepared by INTERFACE for the New York Foundation.

(see Table A). Each 20-year-old household head earning wages instead of collecting welfare benefits represents a net gain to the city of about $1,300 in the first year, and more thereafter as the youth progresses to a better paying job and pays more in taxes. Simply bringing youth unemployment levels more in line with national rates for adults could generate millions of dollars of revenue for New York.

Crimes committed by jobless youths are another social and economic consequence of unemployment. In 1982, adolescents accounted for 34 percent of all arrests in New York City. The direct cost to New York City of crimes committed by 16 to 21-year-olds in that year totalled $275 million in city expenditures alone. While not all youths who commit crimes are unemployed, the vast majority are. And while unemployment does not inevitably lead to crime, it clearly is a contributor.

Finally, there are the costs of direct financial assistance paid to the unemployed. The combined costs of federal, state and local contributions for welfare benefits and medical care[1] for youth in New York City in 1982 was over $243 million.

Government Response

For about 30 years the problem of youth unemployment has been increasing—over the most recent decade at a rate so rapid that government programs and private responses have been largely overwhelmed. For minorities, especially for young black men, unemployment rates have more than tripled for some sub-groups.[2] Migration out of rural areas, the long wave of the baby boom, and a stagnant economy all have contributed in turn to the rising tide of youth joblessness.

As a result, although a great deal is known about the causes and consequences of youth unemployment, and there is growing consensus about what kinds of programs work, none of this has yet been expressed in any coherent national, state, or citywide youth employment policy. Because the problem has seemed increasingly intractable, the massive effort it takes to deal with it seriously simply does not get made. Yet a coherent policy is desperately needed, to shape a coordinated and comprehensive approach which might have a chance of success. Such a policy would direct legislative and funding decisions at the federal, state and local levels, and would determine the thrust of locally-delivered programs.

Instead, no direction has been imposed on the current scattershot approach, despite 20 years of experimentation and demonstrations. Nor has youth employment policy been linked in any way to issues of economic development and adjustment, urban rehabilitation, infrastructure renewal, or any of a number of pressing social needs such as education and health care. It remains, instead, a low-priority, welfare-oriented issue.

Why is this? What does the current system look like? And how should it be changed?

First, as noted above, the costs to society of a wasted human resource are large in the aggregate. But they frequently are hard to see in the framework of a complex

Table A

Annual Loss of City Revenues from Youth Unemployment: New York City, 1982

Age	Ungenerated Productivity/ Youth	Ungenerated Income Tax/ Youth	Ungenerated Sales Tax/Youth	Total Tax Loss	
				Per Youth	Per 1,000
16-17	$1,577.45	-0-	$ 51.35	$ 51.35	$ 51,350
18-19	$3,813.26	$14.78	$107.70	$122.48	$122,480
20-21	$6,232.26	$48.26	$115.44	$163.70	$163,705

Sample City Savings from Employing 1,000 Youths

	1,000 AFDC Household Heads, Age 20	1,000 HR Household Heads, Age 18	1,000 Dependent Youths, Age 17
Tax Gain	$ 163,702	$ 122,480	$51,350
Public Assistance Benefits	$1,159,750	$1,397,960	$511,487
Total	$1,323,452 (or approximately $1,300/ youth)	$1,520,440 (or approximately $1,500/ youth)	$562,837 (or approximately $560/ youth)

Source: INTERFACE, *Youth Unemployment in New York City: The Cost of Doing Nothing*. June, 1983.

industrial economy which is attempting to absorb vast numbers of new workers each year while adjusting to the pressures and realities of world competition. It has been hard to persuade a union member with a long work history, now unemployed, or a college-educated housewife forced to look for an entry-level job, that significant amounts of tax dollars should be expended on the support and training of poorly motivated, semi-literate teenagers. Of course, all three would be at least *partially* better off if any one were employed—e.g., that one would at least pay taxes—but in the real lives of the individuals concerned, the only really satisfactory result is for all three to work if they want to.

It also is true that in the economy as a whole increasing employment for some should lead to new employment opportunities for others. But the United States economy in recent years has been unable to push overall unemployment below about 6 percent, even in the best years, without accelerating inflation and leading to calls for slowdown. We are in this unacceptable situation in part because we have failed to prepare large numbers of young people to do anything useful.

Need for a New Approach

Unemployed adolescents are not all the same. They include youngsters, many with high school educations, who are motivated and literate. These youngsters may need some initial work experience, specific skills training, and/or job placement assistance, but with a minimum of public intervention most of them enter the job market eventually.

Others may be school dropouts, may have low reading and math abilities, and/or may come from unstable family backgrounds. Real work experience is necessary to help these youngsters get started, but they also need a range of support services, if they are to have even a chance to succeed. In a recent study,[3] the overwhelming conclusion of 283 interviews of youth employment program operators and analysts in 17 cities was that:

> What [is] required to substantially reduce the level of youth unemployment is a more comprehensive long-term approach to training that combines basic education, attitude change, skills development and on-the-job training.

The key is a range of services in combination with a real job. In a survey of 38 youth employment programs conducted by the INTERFACE project, results indicate that those which provided skills training in an actual or simulated work environment, with a mixture of academic training, had the most success. Community employment program directors state, "A paid job, or at least stipended training, is needed to get the kids into a program. *Then* we can give them the skills, the schooling and sometimes—if funding permits—the support services. But the most valuable learning is what they get on-the-job. Without that real-life aspect, we lose the kids."

First job experiences, if necessary coordinated and subsidized by public funds, are important far beyond the money they put in a youngster's pocket or even the skills they teach. Research shows that a first job is the crucial one for young people seeking to enter the labor market. Employers list work experience as the major qualification they look for in young job-seekers.

Employers are not seeking job-specific skills with this requirement. In fact, most say that such skills are best learned on the job. Instead they are looking for evidence that the young person knows *how* to work. Without such evidence, hundreds of thousands of youngsters are apt to remain unemployed. Such evidence can be provided by a prior job or by participation in a real work experience program. Ironically, only jobs lead to jobs.

For a significant segment of the jobless youth population, however, a job alone will not solve the problem because, without specific kinds of help, many of these youngsters will fail to perform. They may need development of work-readiness skills, counseling, on-the-job supervision, or continuing support after placement. Needed services may also include crisis intervention or assistance in securing child care, negotiating the welfare bureaucracy or obtaining housing. Sometimes support services should not end with job placement but should continue for a year or two to help the young person *stay* on the job. Educational services also are important, including basic literacy training and remedial instruction for some participants as well as diploma equivalency preparation for others. The failure of numerous publicly funded youth employment programs to show significant long-term improvement in participants' employability, school attendance or crime avoidance can often be attributed to the lack of such support services.

Current Level and Type of Youth Services Available in New York City

In New York City today there are approximately 150,000 young people aged 16 to 21 who are available for work but jobless, including so-called discouraged workers who have stopped seeking work actively. *This amounts to an effective youth unemployment rate of 40 percent—a rate which soars well above 50 percent for minority youths.*

Outside of summer job programs, publicly funded job training or placement programs are serving about one quarter of this number each year. Employment programs are provided by 7 different city agencies—the Youth Board; the Departments of Probation, Parks and Recreation, Corrections, and Employment; the Board of Education; and the Community Development Agency. The Youth Board devotes approximately 3 percent of its total service budget, and about 11 percent of its budget for 16-21 year olds, to employment programs involving about 6,000 young people at any one time. The Department of Employment, serving the largest number of youngsters who are in employment programs, still devotes less than 15 percent of its service budget to 16- to 21-year-olds. The Community Development Agency is the only other city agency with a substantial youth employment program, involving approximately

5,000 youngsters and 15 percent of CDA's budget. No crime-related agencies—Probation, Corrections or Police—devote *any* part of their budgets to youth employment programs.

Thus, although youth-serving professionals agree that employment is critical in reaching and helping youngsters at the margin of society, their budgets do not reflect that priority. Furthermore, of existing employment programs, only a very small number include on-the-job work experience components, and even fewer provide a complete range of services. Job placement programs—essentially card-file referral services—are the most common kind of program. Most of these include job development and some preliminary vocational counseling services. Classroom instruction also constitutes a large part of many programs. Programs with the most comprehensive approaches are able to serve the fewest number of youths.

In fiscal year 1982, the Youth Board funded 31 youth employment-related programs. Of those, only 9 provided work experience or some form of training. The other programs were restricted to providing employability skills training, job counseling and job referral services. The Community Development Agency's 95 youth programs provided employment services limited to job readiness training, job placement and employment counseling.

Since 1981, funding cuts and the lack of private sector placements have decimated the Department of Employment's work experience and on-the-job training programs, leaving classroom training the predominant mode for DOE programs. Only 17 percent of DOE's available slots included on-the-job training and limited work experience for youths.

Clearly lacking are programs that provide the whole range of necessary services. *The evidence is persuasive that the most effective programs are those that combine work experience in a supervised setting with skills training and educational and support services.* Traditionally, however, our social service system has been unsuccessful in providing comprehensive services. Instead of dealing with the whole range of a particular individual's needs, the system has tended to rely on assignment of a label, which then dictates a specific sub-set of services.

These labels are most commonly identified with the public systems with which these youth have become involved and/or with the particular problem they presented when they first came to the attention of the social service system. Thus, they are "run-aways," "truants," "teen-age mothers," "addicts," "offenders," or "unemployed." Once a label is determined, the social service response is automatic. However, many of these youths could have received a different label had they initially come into contact with a different public system. Thus, the fact that a youth is in an employment program hardly means that all he or she needs is a job or some job training. Labels may be useful for some purposes, but they provide little insight into the real needs, and the resources, of the individual youth and therefore do not provide an adequate basis for allocating services.[4]

The compartmentalized human services system as it now exists is characterized by funding, regulatory and administrative restrictions which significantly reduce flexibility; a lack of referral networks and community services; and differing entry requirements (e.g., reading levels, educational attainment, income levels, catchment areas) which cause all programs to serve only particular sub-groups of youngsters.

These constraints may emanate from the federal law or agency that allocates the funds or from the local agencies that administer them. Many restrictions are not formal but are the practical consequence of administrative procedures.

As a result, the youth services system in New York City, as elsewhere, is extremely cumbersome, complex, inflexible and in many ways ineffective. Most services are provided by non-profit community groups under contract with city agencies. Hundreds of these community organizations, all trying to do a good job under very difficult circumstances, contract with multiple city agencies to run one or more programs. In all, the city let more than 2,500 human services contracts in 1982, close to half of which were held by 175 providers with three or more contracts. Sometimes each contract is for a different program, but often two or more contracts, each with a different city agency, may provide funding pieces for a single program. Each of these funding pieces, in turn, may flow from a different federal or state agency. Coordinating the various restrictions, regulations and accounting and reporting requirements in these cases causes much programmatic fragmentation and sends administrative costs skyrocketing. An individual may qualify for services under one funding source, but be ineligible (by virtue of address, income level or other criteria) under the rules of another—although both may be necessary for a program to be effective.

An alternative to providing all services under one administrative roof is the ability to make referrals to other programs for specified services. This approach runs into problems when appropriate services are not located nearby, or when providers simply do not know about other services which do exist in the community.

In another common construct, one city agency may have several contracts with one provider group. A community organization contracting with the Youth Board, for example, may run a tutoring program, a recreation program, and an employment program. Each program operates under a separate Youth Board contract with its attendant administrative costs, including separate financial accounting procedures, application form, reports, evaluations, etc.

Because services are provided by so many city and community agencies, not only is coordination difficult, there is also no opportunity to balance the distribution of services geographically. Thus, it often occurs that two similar programs are competing for clients in one part of town, while another community goes unserved.

Providers find that funding and administrative restrictions not only limit the kinds of services they can provide, but they also limit the kinds of youth populations that can be served. Frequently it is the youngster who needs help most who must be excluded. There are several reasons for this. First, these are youngsters who require the range of educational and support services that programs have the hardest time putting together. Even more of a problem is the fact that the lack of adequate funds and the very demanding performance and accountability standards imposed by government funders tend to encourage, even force, programs to target their resources on those young people who are most likely to succeed with the smallest investment of time and services. This process is commonly called "creaming."

The Federal Role

The new federal Jobs Training Partnership Act (JTPA), enacted in 1982, provides enough money to serve only 11 percent of the youth nationwide who are officially listed as unemployed—and this number does not include the category of "discouraged worker." With an overall budget for youth programs some 40 percent lower than funding levels of recent years, this legislation reduces the federal government's commitment significantly. Worse, however, is the fact that some of its provisions exacerbate the incentives for "creaming."

The designation of "Allowable Activities" in the act includes all vocational skills training and related services such as job counseling, remedial education, work readiness skills, and outreach activities. The fact is, however, that these activities must be funded out of a pool of money equal to a maximum of 15 percent of total costs, thus effectively discouraging or precluding provision of these services in most cases. Adolescents most in need of these services will be ill-served by JTPA programs.

Other restrictions effectively eliminate or severely restrict stipends for training participants. Although one could argue that since they would otherwise be jobless, these youngsters are not losing anything during a payless training period, the fact is that the reality of a paid job is the essence of what is required to generate the foundation of a real work history. In addition, while the JTPA does not explicitly limit the length of time a person may be in training, the logic is for local regulations, such as those in New York City, to limit program cycles to six months, again encouraging a "quick-success" strategy.

JTPA program performance standards, as interpreted by state and local regulations, also will tend to exclude those youngsters with the most serious problems. One of JTPA's goals is to "maximize the return on the public investment in human capital" by establishing a "performance driven" system, one based on prescribed "outcomes" rather than on the prescribed service descriptions used under the Comprehensive Employment and Training Act (CETA), the predecessor legislation. The New York City Commissioner of Employment has interpreted the intent of JTPA in local regulations that set very demanding outcome standards, including placement rates and wage requirements. For large numbers of teen-agers, these embody unrealistic and self-defeating near-term expectations. Providers, fearful of failing to meet placement rates and losing funding, are reluctant to accept them into training programs.

Another potential shortcoming of JTPA is the reliance on the private sector for job slots. Although connections with business are important to provide "real" work experience for trainees, there is ample reason for skepticism about the ability and willingness of the private sector to provide anywhere near the number of job training opportunities that are needed, and about the ability of most community training organizations to develop the necessary working relationships with area businesses.

Evidence of the former was apparent in the federal Youth Incentive Entitlement Pilot Project (YIEPP) conducted in 1978-80 and monitored by the Manpower Development Research Corporation.[5] Only 23 percent of the total work hours provided in the last year of the program—the project's period of greatest private employment—came from the private sector, even though substantial wage subsidies, up to 100 percent, were available.

Restricting and conflicting requirements, from the myriad sources providing youth employment funds, result in a completely uncoordinated approach that duplicates some kinds of services to some kinds of populations in some geographic areas and leaves gaping holes in other services, catchment areas and populations served. National policy, as currently incorporated in JTPA, simply does not devote resources to adolescents in ways that are likely to be effective. No citywide policy exists to determine needs, set priorities and determine service distribution, and no inter-agency mechanism exists to oversee and implement such a policy if there was one. Were such policies to exist, it is highly likely that services could be improved and expanded, even within existing budget constraints, by streamlining administration, eliminating duplication and targeting resources more effectively.

What Needs to Be Done

Development of a comprehensive youth employment policy would require action on several levels: the federal government would have to alter its methods of funding youth employment programs, city governments streamline and coordinate their contract-for-service processes, business become more involved, and community service providers adopt more comprehensive program designs.

Although the existence of a piece of federal legislation in this area does demonstrate some commitment to combating youth unemployment, as it is now structured JTPA's impact is likely to be limited to those youngsters with at least a modicum of skills and personal resources. Supplementary legislation and funding are needed for programs targeted to young people with the more serious problems. These programs must be allowed more flexible performance standards, perhaps geared to goals established for each participant according to his or her strengths and needs. It is critical that adequate funding be allotted for employment-related support services, for remedial education, and for work-readiness training. Follow-up-after-placement services should also be permitted. Finally, stipends during training, whether in a classroom or on the job, are a necessity for youths who need to learn that they can and will earn money if they perform in an adequate and consistent fashion—the simple but critical lesson of positive incentives.

The City Role

New York City's chaotic system of contracting out for human services—like that of many other cities—needs major overhauling. Rationalizing the system must become a priority. The first step might be development of a consolidated contract, so that community service providers could operate several programs under one umbrella agreement, with a single set of reporting, record-keeping and evaluation requirements. Similarly, city agencies could consolidate their costly monitoring procedures. Currently, each agency maintains its own fiscal and comptroller functions and conducts its own evaluations, even when multiple agencies are funding one program. It is not unusual for a community agency to be visited by the same auditor several times, each visit commissioned by a different city agency.

This reform would accomplish two major goals. First, the money saved in administration by both the city and the community agencies could be reallocated for direct services. This could easily amount to millions of dollars. Second, service providers would be able to coordinate services to youths, and provide a more appropriate mix to meet individual youngsters' needs. Both the quantity and quality of the services could be enhanced.

A major barrier to reform, however, lies in the highly restrictive requirements that emanate from different state and federal funding streams flowing into New York City social service agencies. Extensive negotiation with state agencies that administer federal programs, for more flexible arrangements, would be needed.

Reform on the federal, state, and local levels would greatly facilitate development of a comprehensive program model for youth services. With the support of a rational city contracts system and more flexible funding streams, community providers would better be able to prepare today's unemployed youths to be tomorrow's productive citizens.

However, these agencies will not be successful without a major boost in the funding available to them for staff salaries, development and training. Providing individual assessments and differentiated programming requires a level of professionalism which is, unfortunately, rarely found in the typical small, underfunded, community-based organization. Attracting and retaining the kind of skilled staff willing to work evenings and weekends, make home visits, and provide the kind of support needed by adolescents from unstable family backgrounds requires significantly greater remuneration and more in-service training.

Programs That Work

It is time for government funding agencies and community service providers to incorporate what is known about successful youth employment programs into their policies and activities. It is especially important that job training programs be structured to address the needs of the more difficult cases. Not all services will be needed by every participant, but they must be available when they are. All programs should include provisions for the following components:

- on-site training in a real work situation with: a) businesslike performance expectations; b) wages or stipends; and c) close on-the-job supervision;
- regular recording of the participants' performance and progress to provide reliable documentation of employability;
- a comprehensive range of services available according to the individual participants' needs, including educational services (literacy, remedial, GED), work-readiness and specific skills training, and appropriate counseling and crisis intervention support services;
- long-term follow-up after placement;
- well-trained staff who serve both as role models and demanding supervisors for program participants;
- accountability requirements that are based on clearly defined objectives for participants and their sustained progress in meeting these goals;
- links with the private sector to accredit the program and its graduates.

Business participation is crucial to effective job training programs. The importance of on-the-job experience to prepare youngsters for the real world of work is by now thoroughly documented. In addition, however, private sector participation is needed to restore credibility to public training programs and their graduates. Just as the value of a high school diploma is being questioned today by employers, the real skills of a person who has completed a publicly-funded job preparation course are often doubted. If youngsters are employed by private business during their training, and receive commendation from their on-the-job supervisors, those credentials will carry weight.

Within these guidelines, several different models could be developed. One that shows a great deal of promise is the use of city public works contracts to provide supported work experience for youths. This can be the kind of work experience that produces very visible results, to give youngsters a sense of accomplishment. In addition, it produces a product of real economic value to offset the costs of training. Existing housing construction and rehabilitation projects involving young people have produced valuable work for the city that otherwise might never have been done. Although such projects provide important social welfare benefits—job training for adolescents and young adults and housing for the poor and homeless—the programs also have moved out of the realm of social welfare services into the arena of "hard" services so valued by government and community leaders.

At present, there is heightened interest at the federal level in this community improvement approach to job training for youths. Legislation that would accomplish some of these aims has been proposed by Representatives Augustus Hawkins of California and Benjamin Gillman of New York.

Called the Community Renewal Employment Act, the bill would authorize a $5 billion public works and public services program to employ long-term jobless workers. Twenty percent of the funds are earmarked for 16- to 19-year-olds for part-time employment, providing that they are receiving at least eight hours of education or training per week. However, the bill allows funding for training and support services only if there is an employer commitment of an unsubsidized job after successful completion of training. This promise may be hard to obtain.

In the YIEPP program cited earlier, only one-fifth of the employers hired trainees after sponsoring them at a subsidy. In cases where such a commitment does not exist, there would probably have to be a local allocation to fund training and support services for many of the youths. Nevertheless, this and the more modest American Conservation Corps bill sponsored by Senator Daniel Patrick Moynihan of New York and Representative John Seiberling of Ohio are important steps in the right direction.

It is apparent that far-reaching changes are desperately needed in our nation's youth employment policies. Public and private sectors must coalesce around this issue as a central one, affecting the future of our economy and our communities. Without a major commitment, that future is bleak for many of our young people, and for the cities, the economy, and the society which cannot absorb them.

Footnotes

1. See data in "Youth Unemployment in New York City: The Cost of Doing Nothing," INTERFACE, June 1983, New York.
2. See Table 2, page 12, in "Not Working: Unskilled Youth and Displaced Adults," working paper, August 1983, Ford Foundation, New York, N.Y.
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